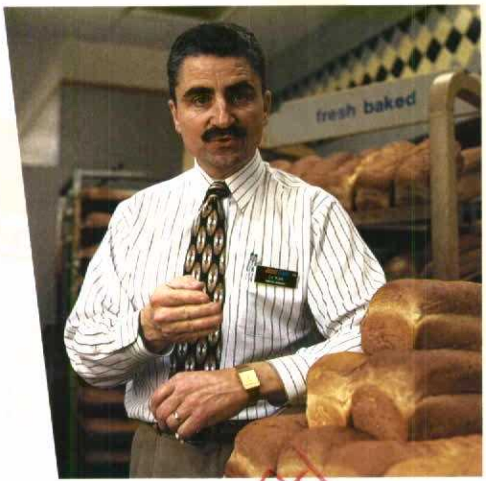
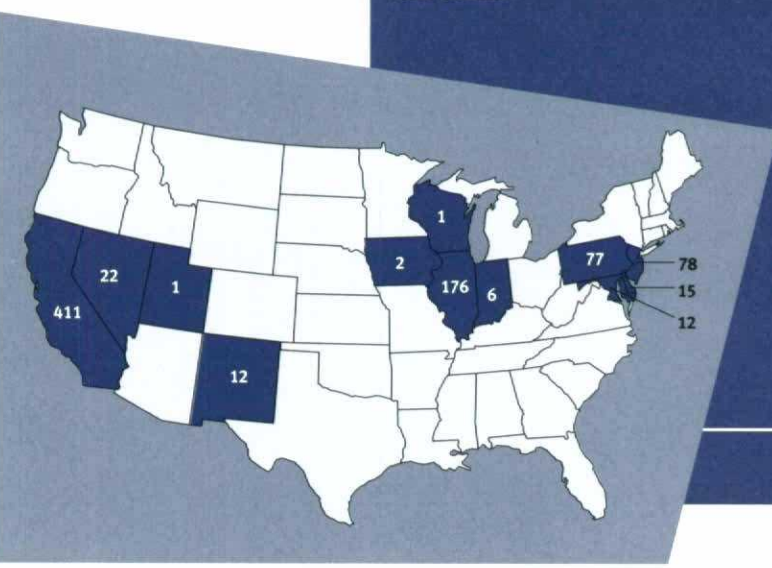
AMERICAN STORES COMPANY
1996 ANNUAL REPORT

Attitude for Change



American Stores Company is one of the nation's leading food and drug retailers operating stand-alone food and drug stores and combination food/drug store units. The Company's operations are generally located in major metropolitan markets where they hold leading market positions (generally first or second in overall market share). The Company's principal food operations are Acme Markets, Jewel Food Stores, Lucky Stores Northern California Division and Southern California Division and Jewel Osco Southwest (the food store operations). The Company's drug stores operate under the Osco Drug and Sav-on names (the drug store operations). At year-end 1996, the Company operated 1,695 stores[1] in 27 states and employed approximately 127,000 associates.

FOOD STORES



FOOD OPERATIONS[1]

Acme Markets
182 stores in 4 states

Jewel Food Stores
185 stores in 4 states

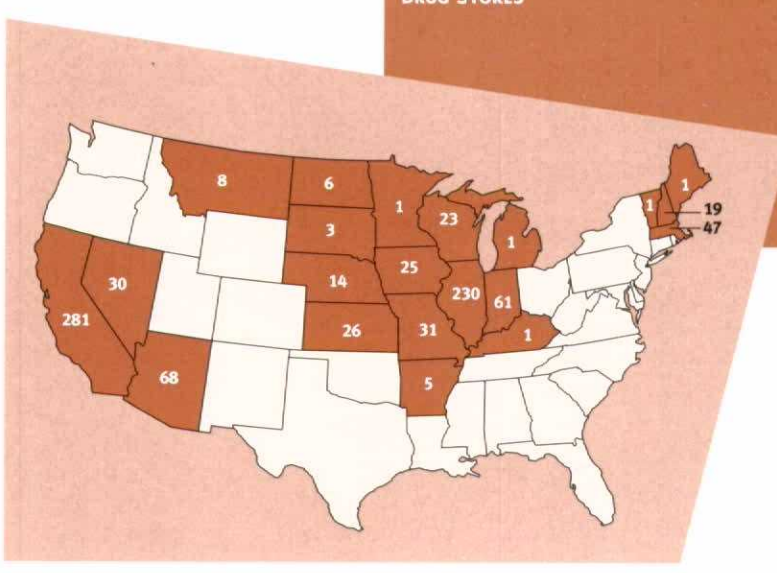
Lucky Stores Northern California Division
186 stores in 1 state

Lucky Stores Southern California Division
247 stores in 2 states

Jewel Osco Southwest
13 stores in 2 states

TOTAL FOOD STORES
813 Stores in 12 states

DRUG STORES



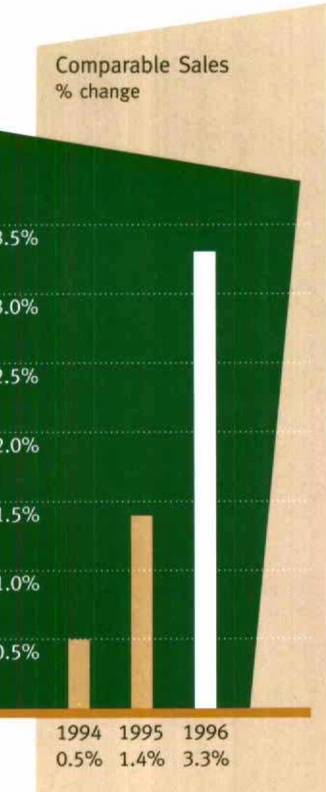
DRUG OPERATIONS[1]

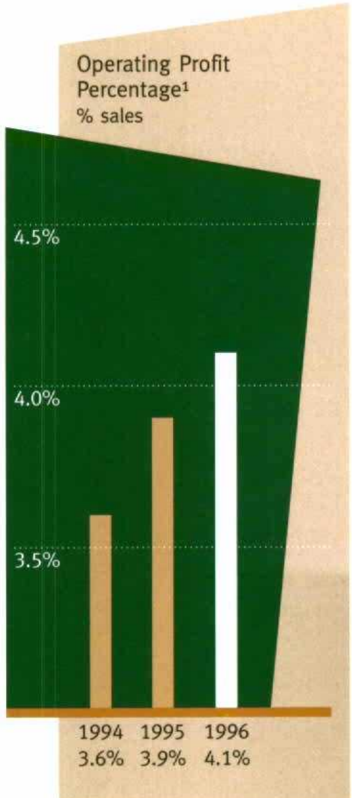
Osco Drug
576 stores in 20 states

Sav-on
306 stores in 2 states

TOTAL DRUG STORES
882 Stores in 21 states

[1] Includes 166 jointly operated combination stores which are counted in both the food store and drug store operations.





1 from continuing operations
2 1995 was a 53-week year
3 includes non-recurring items totaling $.41 of expense and $.39 of income for 1996 and 1994, respectively

before non-recurring items

as reported

COMMON STOCK MARKET PRICES AND DIVIDENDS

The following table sets forth the high and low reported sales prices for the Company's common stock for the fiscal periods indicated as reported on the New York Stock Exchange Composite Tape and the dividends paid on the common stock during such periods. The common shares of the Company are listed on the New York, Philadelphia, Chicago and Pacific stock exchanges under the trading symbol "ASC." The number of shareholders of record of the Company's common stock at March 28, 1997, was 31,755.

	1996			1995			1994		
	Market Price		Cash Dividends	Market Price		Cash Dividends	Market Price		Cash Dividends
	High	Low	Paid	High	Low	Paid	High	Low	Paid
First Quarter	$34 1/4	$25 3/8	$.16	$26 1/8	$23 1/4	$.14	$27 3/16	$20 7/8	$.12
Second Quarter	$41 1/4	$32	$.16	$29 3/4	$24 3/4	$.14	$26 1/8	$23 1/4	$.12
Third Quarter	$42 3/4	$37 1/2	$.16	$30 3/4	$28 1/8	$.14	$27 1/8	$23 3/4	$.12
Fourth Quarter	$45 3/8	$38 3/8	$.16	$30 3/4	$24 7/8	$.14	$27 3/4	$24	$.12
ANNUAL DIVIDEND			$.64			$.56			$.48

American Stores' mission statement promises that we will strive to "surpass our customers' expectations for value." The management team of your Company also applies this directive to you, our shareholders. As a shareholder, you expect the management of American Stores to build value in the Company through a well-executed business strategy for growth and profitability; a commitment to uncompromised quality in our stores and service; and, providing a rewarding work environment for all our associates. We believe we are accomplishing all of these.

If you owned shares of American Stores the entire fiscal year of 1996, you saw your investment grow by 64 percent. We are very pleased with the performance of our stock price and believe it reflects the fundamental strengths of American Stores and optimism for the years ahead.

Our 1996 fiscal year was marked by many important changes and advancements. We continued to successfully execute our growth and change strategies. Our Delta program, the driving force behind our transformation to an operating company orientation from a holding company, moved forward in many key areas including centralized procurement and warehouse consolidation. Benefits from Delta are on track to exceed costs for the second half of 1997.

Our capital spending program delivered 122 new, replacement and acquired stores, maintaining and expanding our presence in our primary markets. For the first time since 1990, our total sales increased from the prior year. Our retail square footage grew by 3.8 percent. Our capital expenditure program will continue to grow our sales and square footage.

And, through all the activity this past year, we did not lose sight of our customers. We offered them more shopping value and convenience through programs such as our loyalty cards, coupon books and increased in-store services. Comparable store sales reflect this with a solid increase of 3.3 percent for the year.

We are proud of the fact that even while making considerable investments in our future through Delta and our capital program, our profits grew as well. Operating profit before special Delta-related charges grew 11.4 percent to $787 million or 4.2 percent of sales. Three years ago our profits were 3.4 percent of sales.

Another significant change that recently occurred was the retirement from our Board of Directors of our founder and former chairman Mr. L.S. Skaggs. The Company has repurchased a portion of Mr. Skaggs' shares in the Company and the remainder have been sold to the public. Mr. Skaggs built American Stores from a small drug store chain to the approximately 1,700 store food and drug retail leader that it is today. His vision and direction steered the Company to success and prominence and his legacy long will be remembered. On a personal basis, Sam was my teacher and mentor. I will be eternally grateful for the opportunity he made possible for my family and me.

As we look forward to 1997, we see a clear vision of our position in the food and drug retailing industry. The true strength of American Stores lies not only in our commitment to capital expenditures and Delta, but the unique combination of food and drug franchises in strong markets that we possess today. No other retailer in the industry has both a major food and drug presence, and we are actively cultivating and leveraging this combination to our advantage.

Finally, our annual report this year presents an outsider's look into the nuts and bolts of our operations and how the attitudes of our associates at all levels have contributed to our success. It was clear to me from the outset of our transformation process, that the attitudes of our associates would ultimately determine our success or failure. Even the best plans for change are destined to fail if the associates involved are not in full understanding and acceptance of the program. Change is never an easy proposition, but our associates have consistently shown a positive attitude and are embracing the new vision of American Stores. Their courage and commitment clearly shine through in the interviews that follow. I would like personally to thank each of our associates for keeping a positive outlook and making 1996 a winning year for American Stores.

Respectfully,

Victor L. Lund
April 1997

Note: Stock prices shown are the 52 week high and low at January 31, 1997

President and Chief Operating Officer
Dave Maher

Executing Strategy

President and Chief Operating Officer Dave Maher started with the Company 34 years ago when he began working at an Osco Drug store while attending pharmacy school in his native Iowa. Here are his views of where the Company is today, and how it is positioning itself to face the future.

What are the one or two things that will make American Stores successful in the years ahead?

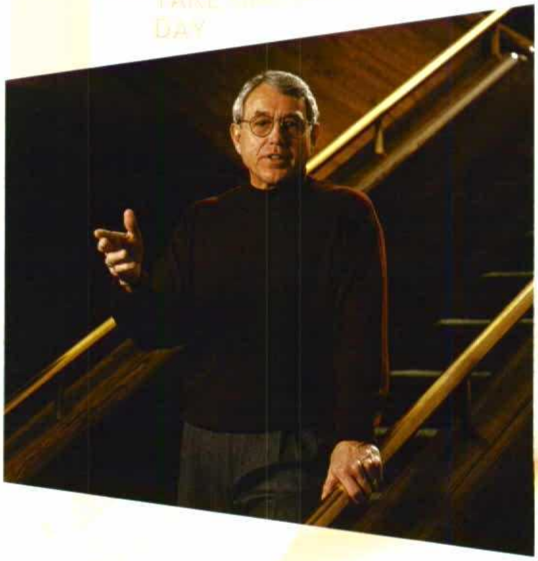
About three years ago, Vic Lund, Chairman of the Board and CEO, set forth a platform of objectives, one of which was that we'd become a growth company, and another was that we would become a low-cost leader. We're meeting these objectives principally through our capital expenditure and Delta programs.

To help us achieve our goal to become a growth company, we've doubled our capital expenditures from where they were three years ago. This year they were about $1 billion. We expect to maintain this aggressive level for the next several years. We expect to add 100 to 110 new or replacement stores each year. One of our targets is to be the number one or number two player in terms of market share in all our major markets. We already operate in strong markets and our capital commitment will strengthen and grow our presence in these markets as well as new ones. Our new stores are bigger and have a broader product offering than our older stores. By expanding the store departments to include delis, bakeries and more general merchandise, we're reaching into new areas of growth.

To reach our goals of enhancing our merchandising and becoming a leading-edge low-cost operator, we started a project known as Delta, which is the Greek symbol for change. We took about 130 of our key people out of the field, and brought them together into our Delta group. Their goal was to help us move from a holding company with seven operating divisions to a centralized operating company. Delta consists of literally hundreds of initiatives – everything from designing new supply chain systems to centralizing our administrative functions in our new Salt Lake City office building. In the final analysis, Delta will help us grow sales and earnings faster by providing customers exactly what they want at the lowest possible cost to us.

What is American Procurement and Logistics Company (APLC)?

APLC is the embodiment of the Delta vision. The APLC organization was formed to carry out the new tasks of managing centralized procurement and logistics. The group is made up principally of former operating division personnel and former Delta personnel. It was important for us first and foremost to put together the central organization so we could work out the culture changes and begin working as a team. As new Delta procurement and logistics systems are completed in 1997 and 1998, APLC will be responsible for their implementation.



What store types best attract food and drug customers?
Our focus is on large food and drug combination stores – what we call "combos" – and smaller stand-alone drug stores. When operated together in the same market, the two formats provide us the ability to grow sales faster and generate higher profits. We keep our separate food and drug identities in the eyes of the customer.

We are the nation's largest combined food and drug retailer. We believe in the natural synergy of combined food and drug operations. Our combination stores are both a food store destination and a drug store destination to our customers. None of our competitors offers this combination.

What is the Company's position regarding acquisitions?
We are interested in, and continue to look at, acquisition possibilities, especially those that would enhance markets we are in today or that are contiguous geographically to our markets and would lend themselves to our food and drug synergies. We require that any acquisition be accretive to earnings in the second year and not impact our investment-grade credit rating. Our credit rating is important to our ability to finance our internal capital expenditure growth program.

What can you tell prospective shareholders of ASC stock about investing in the Company?
I think we do a good job of keeping our priorities straight at ASC. Everything we do is ultimately for the long-term benefit of the owners of the Company – from making sure our associates are treated fairly to spending $1 billion in capital expenditures – it all boils down to our ability to create value. I think we have done that well.

What can you say about the Company's attitude toward change?
I've been associated with this Company for 34 years and I can tell you that one of the greatest things that I see changing is our associates' attitudes. We're in the midst of massive change and people are having to work harder, yet are giving us tremendous support. When we consolidated our grocery group in Salt Lake City in May of 1996, we posted 32 available jobs and we had over 400 applicants from all of our divisions around the country. I think that bodes well for where we are going and how people feel about what we are doing.

We are seeing the expansion of ideas. There are things like loyalty cards that we started at Jewel that quickly have been picked up at Acme, Lucky, Sav-on and Osco. We're facilitating the transportation of ideas and concepts across divisions because the barriers have been broken down. It's been a really amazing process.

Store Co-Managers, Lucky Sav-on Combination Store
Mark Vant Hul and Cheryl Beall

Combination Stores in California

Both of you are pioneers. Your store is one of the first Lucky Sav-on combination stores in southern California. As experienced store managers, what do you see as the benefits of this store format?

Mark: Of course, we at Lucky always focus on food – fresh produce, fresh deli, fresh bakery. That's not true of a drug store like Sav-on, which has depth of selection in such items as perfumes, cameras and gift items. Sav-on has given our Lucky customer another reason to shop here.

Cheryl: Everybody comes into a grocery store because they need to buy food. Once here, they come over to the Sav-on side. They use our 1-hour photo service. They buy their toiletries here. They buy a lot of impulse items. Lucky is a great traffic booster for us. On top of that, this store offers customers a bigger selection and more convenience than just about any of our competitors. We have a bank, dry-cleaners, Chinese kitchen and video store. That's hard to beat.

Cheryl Beall, an 18-year veteran with Sav-on, is the Sav-on manager at the new Lucky Sav-on combo store in Garden Grove, in southern California. Organized and friendly, she runs an efficient operation. Her Lucky counterpart is Mark Vant Hul, who started with the Company as a clerk's helper 20 years ago, before rapidly moving up the organizational ladder. Affable, with a quick laugh, he and Cheryl work well together. However, as Mark says, you can't have a strong relationship if you don't bicker a little bit. Together, they're turning their friendly banter into an exciting new venture.

Before you opened this store three months ago, what training did you receive?

Cheryl: We've been able to benefit from the synergies that have come from the various divisions of the Company now working together. We were sent to Chicago where we spent time with our counterparts who have worked in the Jewel Osco combos that they've had out there for many years. I had never seen a combo store. I learned a lot about their merchandising strategies, little things that add up. This past Thanksgiving, for example, we placed turkey roasters next to the turkeys and sold a ton of roasters. At a stand-alone Sav-on, we don't have turkeys, so we don't sell many roasters. Here, with Lucky, we had trouble keeping them in stock. Seeing how they merchandise in Chicago was very helpful.

You've both been with the Company a long time. How do you see the relationship changing between Lucky and Sav-on?

Cheryl: I don't think we really had a relationship in the past. They were two stores, two different companies. That's changing. The two divisions are now sharing offices in Buena Park. Our warehouses are being combined. Soon one truck will deliver for both of us. This store is a perfect example of the changes. Not long ago, a combo store like this would have been almost unthinkable.

Mark Vant Hul and Cheryl Beall

How do you think the new relationships between Lucky and Sav-on will affect the Company in the long run?

Mark: A lot of this is brand new, but you can already see some payoffs. For example, a new Lucky Sav-on combo store will soon open in Mission Viejo. The managers of that store have been calling Cheryl and me to take advantage of our experiences, just like we did with the Jewel and Osco people we met in Chicago.

Cheryl: At the same time, we know that one of our biggest strengths is our individual identities as Lucky and Sav-on. It's important that we keep those identities strong and distinct. We have two sets of customers. No one else has that. I think the customer perceives we have a lot more to offer.

What do you think about the Company's attitude toward change today?

Mark: It isn't easy to change a mentality of "the old ways are better," but we're doing it. Once people see the real benefits of change, acceptance and enthusiasm builds quickly. Also, I think everyone has come to the realization that if we're to remain competitive in the long-term, we have to change.

Cheryl: We're being challenged a lot. We're constantly asking ourselves, "Why do we do this?" And we often answer, "Well, we've always done it this way." Now that we're together, we're learning from each other and we don't have to do things the same way we've always done them.

National Product Manager, APLC
Debra Biggerstaff

Buying as One Single Company

Debra Biggerstaff started working as a checker at a Lucky store in her native southern California 24 years ago. After rising in the ranks of store management, she moved into accounting where she spent nine years. She then became a buyer for Lucky and three years ago moved to Salt Lake City to become part of the Delta team. Today, she's the national product manager for a number of grocery categories, including breakfast cereals. She is a member of the Company's new centralized buying team – American Procurement and Logistics Company, or APLC.

How has the American Stores' Delta centralization process changed what you do?
Before, I was buying for 242 Lucky stores in southern California. That is no comparison to the almost 1,700 stores I buy for now. Buying for over 200 stores is very formidable when talking to the supplier community, but it's nothing like 1,700.

Now I'm able to partner with those suppliers and create a team effort, instead of an adversarial relationship. This means we can drive costs out of the system. We are able to have more efficient buying and more efficient promotional programs. If you're working together toward a joint goal, it is far more productive than if each has their own agenda.

I'll give you an example. We had several contracts for gourmet whole bean bulk coffee throughout the system and decided to have one contract for the entire Company. By being centralized, I had a lot of support for these negotiations, which took four months, that I could never have had in a division. I was able to work with our divisions to address their needs, and I had the time and resources to study the product category. The end result was a three-year contract that will save us millions of dollars. We have negotiated similar national contracts in areas such as greeting cards and film processing that will save us even more. Each division could not have gained such savings by itself. However, I don't believe I could have gained those savings without the help and cooperation of each division.

What has been the reaction of the vendor community?
Vendors have been a little nervous about how American Stores could possibly pull this off. Other companies have attempted and failed. We decided to work closely with our vendors. We asked vendors to appoint a high-level sales representative whose sole job was to work with us. They also built teams that matched up with our teams. The vendor's team might have a logistical person, a category management expert and a promotional analyst. On our side, we might have a product analyst, a logistical person and a category management individual. Their team and our team align pretty well. This creates a partnership and allows for greater efficiencies, better communication and more effective promotional efforts.

What kind of support systems are there to help you with your job?
From the start at Delta, we recognized that unless we had the same systems throughout the Company, we were not going to be able to effectively centralize the organization. So a huge effort is being made to create the infrastructure needed to support APLC. Much of this work is still in process but we have already made progress. We recently rolled out an advanced procurement system and a new sales system. For the first time, I can get sales information from all divisions. If I want to see how a certain cereal did, I can pull up the data that shows me the cereal sales division by division.

How has the Delta centralization changed your thinking?
You can get caught up when working in a division by supplying what it needs and going home at the end of the day thinking you've done your job. But you actually haven't. Because of centralization, I've learned you have to think globally. You take an effective strategy from one division and apply it to the others.

We recently did a category review of coffee creamers. We looked at the strategies in each division and what they were doing in that category. We wrote up an analysis and saved $280,000 a year just by eliminating a value brand, which is a lower-priced version of a national brand.

I have seen that the benefits from the Delta strategy are real. Instead of your own narrow focus, your team members often force you to look outside of your own realm of experience. We are learning from one another. This is one reason why Delta has been so successful. It has brought different people with different strengths together to address common challenges.

Do you run the risk of trying to force all the divisions to be the same?
Our primary goal is to secure product at the lowest cost. I generally don't influence the marketing strategies. These come from the divisions themselves.

Senior Marketing Manager, Lucky Northern California Division
Jeff Braley

Marketing to the Customer

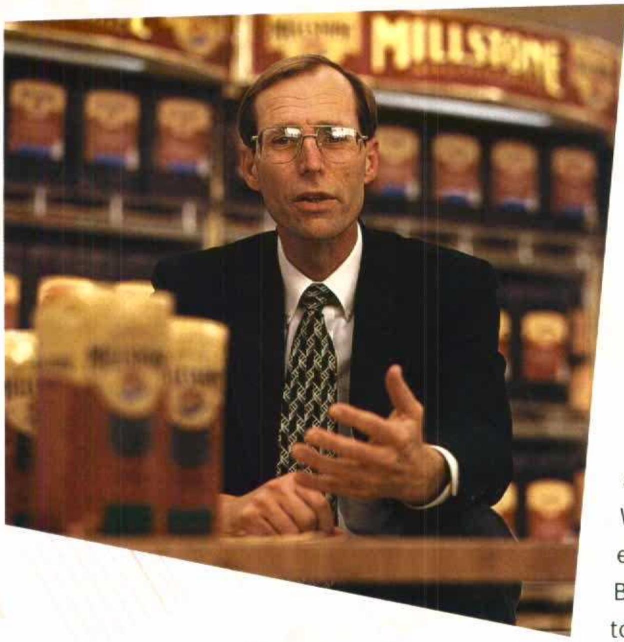
Lucky Stores was particularly active in 1996 responding to customer needs and wants by introducing several innovative marketing programs. What were some of these programs?
That's a big question. There's been so much going on. In February 1996, we introduced the Big Book coupon book that is mailed to customers monthly. We kept it a secret until the introduction and, quite frankly, it caught the whole marketplace by surprise. It's been enormously successful.

But that was just our first play. We followed that up in April when we introduced the Lucky Rewards Card, which is a frequent shopper program. It provides added savings to shoppers using the card. Later in the year we used the card to introduce a clipless coupon program, allowing customers to automatically get the discounts featured in the Big Book without physically having to clip coupons. The customer card program started in the Jewel division and is now in the Acme, Lucky, both northern and southern, and Sav-on divisions.

From a marketing viewpoint, we are getting information about the buying habits of shoppers that will allow us to more effectively target our marketing. This program is in place in the Jewel division and we will have it here at Lucky during 1997. For example, if we have a customer who purchases baby food, we can see if they are purchasing diapers with us. If not, we can target diaper promotions to them. Or, if the consumer hasn't shopped with us in the past two months, we can send them a special offer in order to get them back into our stores. Nobody in the market has anything like the Lucky Rewards Card. It's really designed to reward customer loyalty so they will come back on a regular basis.

A San Francisco 49ers jacket hangs on a hook in Jeff Braley's office, reflecting his love of sports, all sports. As senior marketing manager, he is as enthusiastic of the exciting marketing changes that have taken place during the past year at Lucky Stores as he is of a string of Steve Young touchdown passes. A 30-year veteran of the Company, Jeff has been an integral part of a series of winning plays Lucky has executed during the past year.

You work in the San Francisco Bay area – the heart of Lucky country – yet almost all of your buying comes from Salt Lake City. How do you coordinate with the national buying group there to assure you get what you need?
Communications. We constantly communicate, and it has worked out very well. Let me give you an illustration. We take the first step by deciding on a product category we want to promote, based on factors in our local market. Let's say we want to run a special on a soft drink. We tell Salt Lake City, and the National Product Manager surveys the category, negotiates the best price and comes back to us with a particular soft drink product where we can get the best deal. He or she also does an analysis, forecasting how much product will be sold at various prices. We then determine the price and if there will be other promotional aspects, such as a Lucky Rewards Card discount, based on our local needs. After the promotion, we see how accurate our projections were and add this experience to our database of information so we can refine our forecasts for future promotions. Throughout, there is constant communication via phone, e-mail and new Delta systems like the computerized Marketing Event Calendar. The Salt Lake central buyer assures we get the best deal and we're able to address our local market needs.

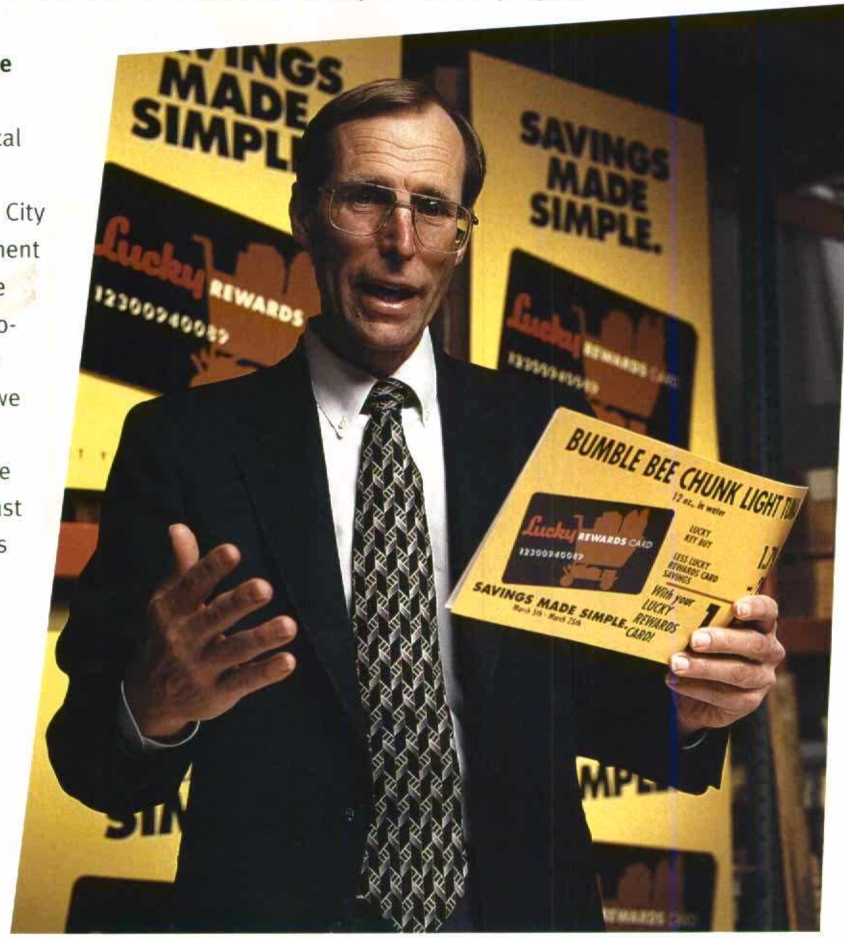


Private label products are particularly successful at Lucky Stores. What is happening in this area?

We have been very strong in the private label area. We're planning some major advertising campaigns for our private labels during the next year including significant quarterly promotions. Private label sales are vital to our overall success. As we become more and more promotionally driven, the profitability that private labels bring to the table becomes more important. Private labels provide higher profit margins than do national brands and offer the customer a "value" alternative. As we discount in some areas, private labels allow us to maintain our profitability. We're also innovative with our private label marketing. For example, if we have a national brand of paper towel in the Big Book, we try to have a private label item displayed next to it that ties in. That's been a very successful program.

How has Lucky been dealing with the changes brought on by Delta?

We've gone through some pretty radical changes in the past year. We've been working closely with APLC in Salt Lake City concerning procurement and replenishment issues. That's been quite successful. The whole key to this is having effective, two-way communication between us and Salt Lake City. That's been happening. When we leverage all of American Stores together, there is nothing but positive that can come out of it. The coming year should be at least as exciting as this past year, because that's when the Delta systems will really take effect. The end result for us in marketing is that we will become much more effective.



General Managers, Jewel Osco Combination Store
Mike Creed and Ed Kulik

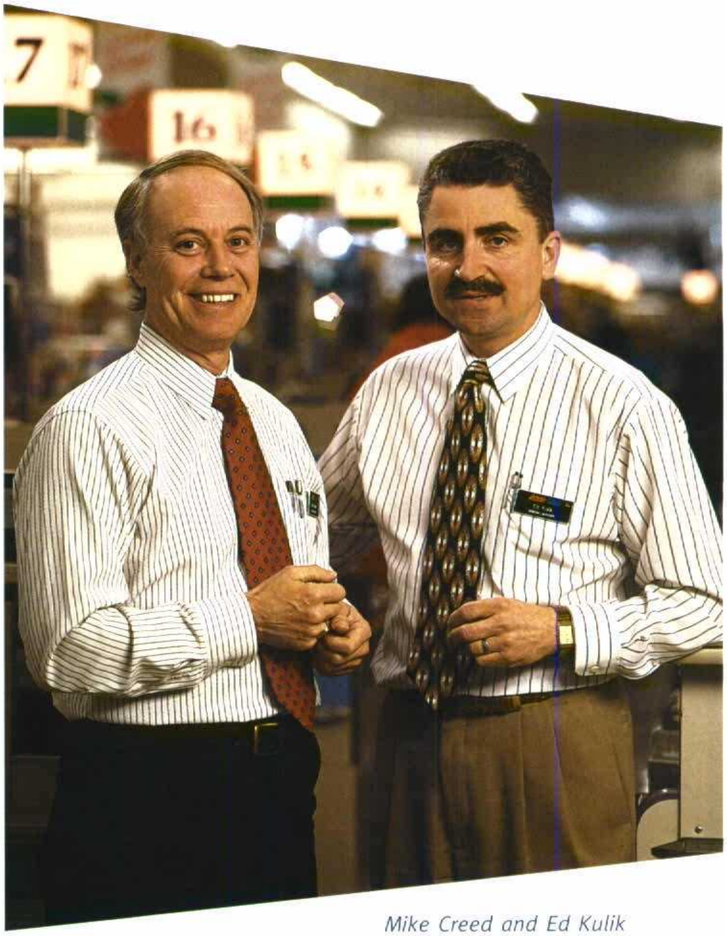
Combination Store in Chicago

Ed Kulik started with Jewel in 1964 while in high school, worked his way up through various positions both in and out of store operations, and now runs the Jewel side of the Jewel Osco combination store in Orland Park, Ill., a 100,000-square-foot facility which is something of a testing ground for new concepts within American Stores. Mike Creed, a 30-year Osco veteran, runs the drug store side of Orland Park. He's been in just about every store management position there is. Together, Ed and Mike operate one of the most tightly run, productive facilities not just in American Stores, but anywhere.

American Stores has operated Jewel Osco combination stores for many years in the Chicago market. What's different about your operations now?
Ed: In our marketing and advertising, we've just started working together in ways we've never done before. For instance, we now offer a buy-one-get-one-free, such as a case of beer, which is from Osco, and a pizza, which is from Jewel. It's working great. This is really significant because it represents a change in our attitude. When the customer comes inside the store, there's no wall dividing the building. Before there was a wall – an invisible wall – because we viewed ourselves as two separate units. Since the wall came down, we have asked, "This was so simple, why did we wait so long to do this?"
Mike: Both the food side and drug side are benefiting. One thing we've been able to learn through all the Delta change initiatives is that we have to merchandise to our customers who don't necessarily have food and drug boundaries.

What is your approach to customer service?
Ed: The front end is all-important. Our philosophy is, if you have one customer in line and another one waiting, it's time to get another line open. If there's anything we want to be known for, it's good customer service. A customer will praise you when you have it and criticize you when you don't. I always look at that front end as being the moment of truth because that checker or clerk is the last person the customer sees before deciding whether or not to come back.
Mike: For our pharmacy customers on the drug side, the quick check-out is equally important. Since this is a full-fledged drug store within a combo store, some customers just stop in for their prescriptions. It's important for them to get in and out quickly.

How do you differ from the competition?
Mike: We are the only major food and drug player in the area operating as partners in one retail unit. We have large combination stores as well as smaller stand-alone drug stores. Having both formats in the same market really helps us establish our identity. Osco always means full-service drug store and pharmacy regardless of the format.
Ed: The Preferred Card. We tested that here in Orland Park. Customers get discounts and other benefits with the Preferred Card and we're able to better understand our customers' buying habits and offer additional savings on items they purchase. Just before Christmas, I sent a personal note to my top 25 Preferred customers. It said, "I'd really like to meet you, please see me and I'll give you a free poinsettia." Of the 25, 17 stopped in. They appreciated the personal interest and it was important for me to talk to the people who support us the most. They know what we're doing well and where we can improve and I encourage them to share that information with us.



Mike Creed and Ed Kulik

This store has a large selection of prepared and ready-to-eat foods. Is this the supermarket look of tomorrow?

Ed: We have put a lot of research and investment into the "home meal replacement" arena. In this store we have a full kitchen and chef who prepares meals, a salad bar, pizza, coffee bar, and the list goes on. With today's lifestyles, more food is eaten away from home or on the run. We know we need to be part of that change. Will all Jewel stores someday look like this one? Probably not, but the important thing is we're finding out what works and what doesn't and we'll use that knowledge throughout the Company.

Mike: You know that quick in-and-out pharmacy customer I was telling you about? More and more we see him grabbing a sandwich and coffee on his way out. We have definitely got to be in tune with that customer.

What do you think is the attitude of people here to all of the changes that have been occurring?

Ed: To me, the exciting thing about being in a retail environment is that change never stops. Now that food and drug work more closely together, there's even more change. I think change is good and the people here expect it and benefit from it.

Mike: We know we're not changing for change's sake but we're changing for a purpose, creating a better store for our customers. How many companies today will never see employees wearing 25-year watches? We have a company that still hands out 25-year watches because we have associates that want to grow with the Company and become successful with the Company. So change does not scare the Jewel or Osco associate. We embrace it.

Senior Vice President Markets
Donn Scherer

Growing the Store Base

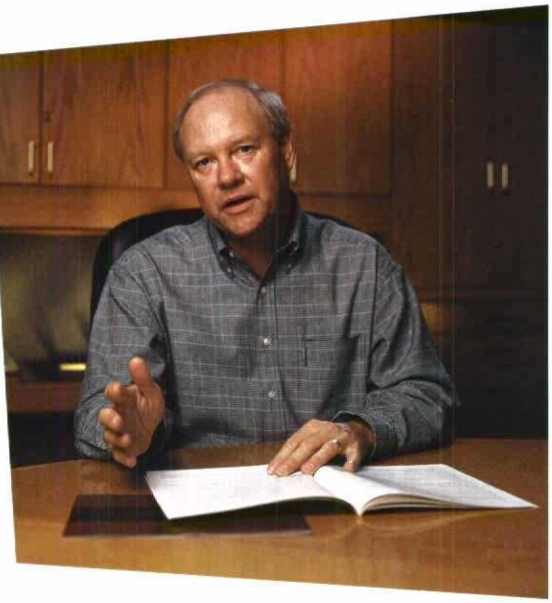
Soft spoken and articulate, Chicago native Donn Scherer still has the quiet, competent air of a professional pharmacist, which he was when he started with the Company in 1965. But it's been a long time since he has dispensed elixirs. Today, he is one of the Company's top real estate gurus, holding the title of senior vice president of markets, and having responsibility for real estate development in the central and eastern parts of the country. Here are his views of how American Stores' real estate activities have evolved in recent years.

How has American Stores' capital program changed in recent years?
Back in 1992, we spent about 2 percent of sales on capital expenditures and constructed 36 new stores. In 1996 our capital spending was $1 billion – over 5 percent of sales – and resulted in 122 new and acquired stores. That's a dramatic increase in just a few years. We're committed as a company to aggressively invest our capital in new stores, to grow the Company sales and strengthen and improve our market presence. We have largely achieved our goal of holding the number one or number two market share position in our major markets.

What about changes in the real estate group, American Stores Properties, Inc. (ASPI)?
Going back again to '92, when American Stores was a group of individual operating companies, each operating company had its own real estate and construction department. There was a lot of duplication across the business. ASPI was among the first functions within the Company to go through the Delta change process and be centralized into one function reaching out and serving all the operating divisions.

ASPI is now a fully-integrated property development company. The majority of our projects today are company owned and company developed. We develop these properties throughout the country with in-house capabilities in real estate, legal, entitlement, environmental, construction, market research, finance and fixture manufacturing and purchasing. We are now structured to implement the Company's growth and capital plan swiftly and efficiently as evidenced by the 122 stores opened in 1996.

Has your technology kept pace?
We are really getting up to speed with technology. We now have in-house a sophisticated GIS (geographic information system) on our computers. It quickly provides our real estate managers and market research people with almost any kind of demographic, trade and competitive data they might want for a given site. It can even calculate a site's sales potential and our potential market penetration. Within about a year, our sales people should be able to literally sit down at a site and, by using their computers, do a fairly sophisticated analysis of that site within 15 or 20 minutes.



What has ASPI been doing about model formats for the stores?

We've standardized two basic formats. One is the combination store, which is a combined supermarket and drug store under one roof with a centralized checkout. Within that combo format we have several prototypes that are different sizes to fit the specific location or market requirements. A few years ago, we developed a new design for almost every site. The second format is a stand-alone drug store. We have basically two prototypes, one with liquor and one without. Five years ago, there were probably a dozen different prototype drug stores. By choosing two formats and a few basic prototypes, we've simplified the entire development process, which lets us move much quicker than ever before to take advantage of opportunities as they arise.

What is the Company's attitude toward change? Do you have any examples in real estate?

The Company advocates change. Change is encouraged by our executive group. For instance, we have to change our technology so we are better equipped to identify and evaluate the best sites and we have to change our construction materials and process to ensure cost savings. Most important of all, we have to continually change our development process so we can handle quickly and efficiently the large number of projects to be developed by ASPI.

For example, we identified the Des Moines market as a good opportunity for Osco Drug. Approximately a year after making that decision, the land was purchased and eight stores were constructed and open for business in a market where we may eventually have 12 stores – total. We've practically fully established ourselves in the market in one year. Because of the way we have been organized, we were challenged, focused and able to execute quickly. Now we are ready to repeat the process in additional new markets.

Regional Pharmacy Manager, Sav-on
Ellie James

Drug Stores for the Future

In 1996 a new program was implemented called Pharmacy 2001. What is it and how has it benefited the drug store side of the business?
Pharmacy 2001 is a series of initiatives designed to improve the efficiency of our pharmacies, enhance customer service, and simplify the work of the pharmacist. I'm a pharmacist, and I can tell you that one of the most disruptive and frustrating aspects of pharmacy is having the phones constantly ringing while you are trying to serve a customer. Our new interactive voice response system lets the customer use the phone to order a prescription refill or check if a prescription is ready without having to speak to a pharmacist. The system is available at all hours, including when the pharmacy is closed. Of course, if the customer wants to speak to a pharmacist, they easily can. This system improves both our productivity and customer service.

Ellie James is a small woman with a high energy level. She's been with the Company 10 years, starting as a pharmacist, and has fast-tracked to becoming a regional pharmacy manager at Sav-on drug stores in southern California. She's excited by the changes occurring in the Company, and here is her assessment of them.

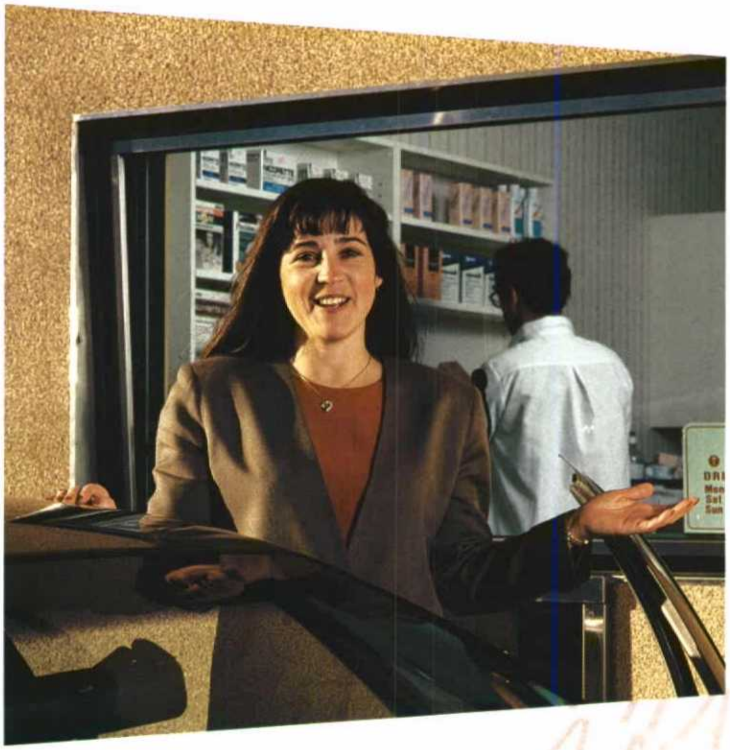
We also have a new system to ensure prescriptions are filled correctly. When the prescription is filled, the bar code on the stock bottle is scanned as well as the bar code on the prescription label. The two must match to complete the prescription filling process. This step, along with more traditional quality assurance checks, helps all our pharmacists deliver a high-quality and accurate prescription to our customers. Another system creates a report that tells the pharmacist not just which prescriptions have been filled, but which have been picked up by the customers. The report also includes the customer's phone number, so we can easily phone and remind those who haven't picked up their prescription, that it is ready. Before, the pharmacist would have to hand write all this information. In a busy store, that's a weekly 8- to 14-hour project. Now it is done in a matter of minutes.

What is being done to maintain and improve pharmacy sales and profit margins?
Perhaps our most significant effort in this area is the relationships we are creating and strengthening with third-party payors, such as insurance companies. Today, more and more prescriptions are handled through the third-party payors and the percentage of Osco and Sav-on prescriptions paid by third parties is well above the national average. This positions us for a strong customer base going forward.

We're able to keep our margins higher through our generic drug utilization, and we believe we're the best at this in our market. Whenever appropriate, our staffs are trained to mention to customers the availability of generic drugs as alternatives to brand-name ones. Generics are just as effective as brand names, but cost the customers and third-party payors less. And we benefit because generics have higher margins. We even have agreements with third parties now to pay us incentives for filling prescriptions with generics because it saves them money.

What is the preferred drug store format and how is it successful?

We're remodeling older stores and designing the new ones to include a larger, more user-friendly pharmacy and usually a drive-through pharmacy window for convenience. We are building more new stores as free-standing corner stores. This also makes the store more convenient. We've expanded our over-the-counter product offerings. Homeopathic products are very popular, for example, so we've expanded this section. This is in response to customer demand. We're working hard to give our customers what they want.



Sav-on has been buying customer prescription files from independent pharmacies. What are the benefits of this?

It's a great way to jump-start new pharmacies and increase our customer base at established stores in a very cost-effective way. We are buying the customer prescription files of independent pharmacies who want to get out of the pharmacy business. Existing Sav-on stores are now enjoying growth because of this program. Not only are their prescription revenues increasing, but their general merchandise sales, too. The new prescription customers coming into the stores are buying other items. For new pharmacies, purchasing the files of independents has shortened the time it takes to reach profitability by as much as one-half.

Tell us about RxAmerica.

This is one of our most exciting and promising business opportunities. RxAmerica is a pharmacy benefits management company, which manages the prescription drug benefits provided to participants through health care plans. Our partner in RxAmerica is Geneva Pharmaceuticals, a generic drug manufacturer. The RxAmerica network is not limited to our own retail operations, but also includes drug stores around the country that provide services to participants in health care plans. In addition, RxAmerica has two mail-order facilities. We're able to offer some of the best, most comprehensive service a health plan can get, and that gives us a step up on the competition. RxAmerica shows we're willing to expand and do new things. We're reaching into so many different areas, and that's really exciting.

What about the Company's attitude toward change?

I think that, first, attitude is everything. People have to be willing to do things differently if you're going to survive in business. The companies that I've seen struggle are those that are not willing to change. I have really seen a lot of willingness to change here. We've been adding new systems. We've been consolidating the food and drug sides. I see people embracing change and excited about it. I think those in the upper echelons of the Company have a great attitude toward change. They are willing to break the norms and do things differently and they're passing that energy down to all the associates. This is what makes us successful as a company.

Vice President Inventory Management
Dwight Stanley

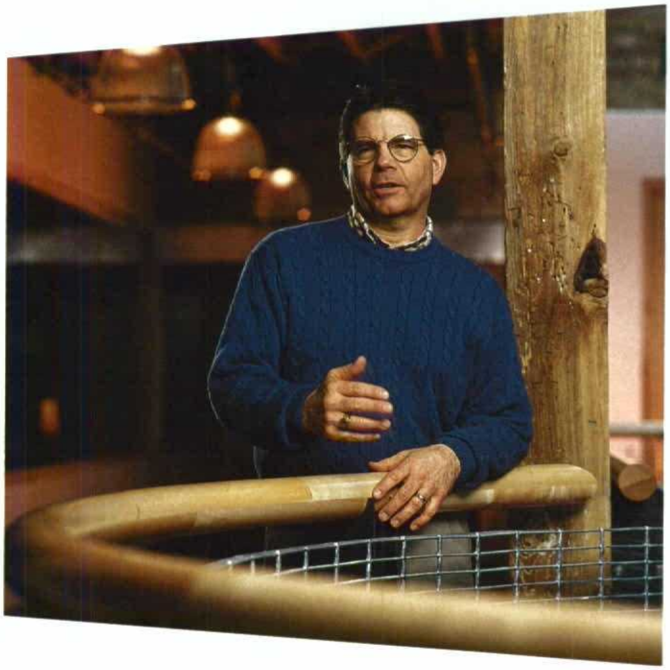
Supply Chain Management

You deal with centralized inventory management, an integral part of American Stores' Delta efforts, on a day-to-day basis. What does this entail?
The inventory management organization is responsible for warehouse replenishment, inbound traffic control and the day-to-day analysis of how to move products through the supply chain at the lowest possible cost.

In May 1996, we began the centralization of these functions that were previously handled by our individual operating divisions. We are now able to take an experience from one warehouse where we were successful in lowering costs and apply it to other facilities. This is a key benefit of a centralized logistics program. You take the best ideas that work in one place and apply them to another.

Dwight Stanley started at a Company store in San Diego 28 years ago bagging groceries. He moved up the ranks of store management, before moving into regional management, special projects, procurement and, finally, into the Delta project, which brought him to Salt Lake City in 1994. After 14 months working on Delta, he took over the position of vice president of inventory management, where he is today.

What systems are supporting this effort?
A new warehouse replenishment system that gives us more accurate forecasting capability than our existing systems is being piloted in our La Habra distribution center in southern California. We have also implemented the Dallas system in nearly all of our warehouses. This is a leading-edge inventory control system that uses radio frequency for constant communication between the warehouse computer, receiving docks, and the forklift operators. The result is we can now manage product flow within the building more efficiently. This system has had a substantial impact on both our labor requirements and the management of inventories.



What are you doing to reduce inventories and working capital?
We are doing a number of things in this area. First, we're working on improving our forecasting methods and systems, so we buy the right amount of a product. We are also identifying "aged" inventory in the warehouses. This is typically excess promotional merchandise that never made it to the stores. This inventory takes up valuable warehouse space and ties up important capital dollars. A key benefit of centralizing logistics and procurement is that we can now work more effectively to plan programs that will maximize sales, but will also minimize the inventory carry-over on promotional merchandise.

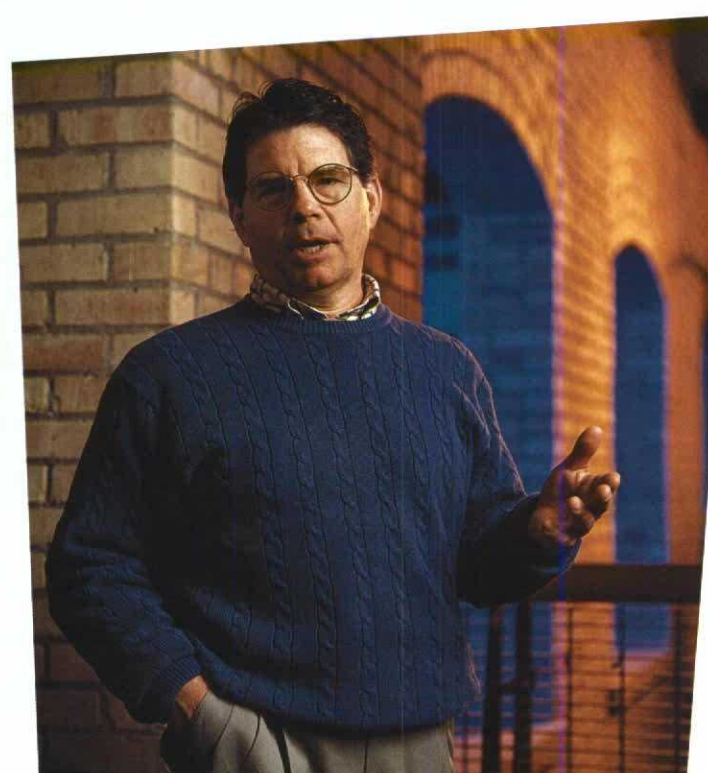
Annual turn targets for inventories have been established for each of our distribution centers. The annual turns measure is the most effective means of balancing our service commitment to retail operations while managing the inventory investment levels and the use of working capital.

Lastly, we are working with our key suppliers on a number of inventory management and product flow initiatives that deliver the right merchandise, to the right place, at the right time. The logistical programs include continuous replenishment, vendor managed inventory, cross-docking and pre-assembled display pallet distribution. By taking a broader view of the supply chain, looking at the many ways to reduce costs for ourselves and the supplier, we can ultimately offer more value to our customers.

What's being done with electronic commerce and electronic data interchange (EDI)?
We are using EDI as a means to process purchase orders and invoices with our vendors. Over one-third of our entire company purchases are now handled electronically, without paper documents. American Stores is aggressively moving toward a paperless environment and we have made excellent progress in this area. From an inventory management standpoint, EDI allows us to use information in place of inventory.

What other Delta initiatives are being implemented?
One of the really exciting things we're doing right now is consolidating warehousing facilities where possible. In southern California, we have had four separate general merchandise facilities for Lucky and Sav-on that have handled duplicate inventories. We are now preparing a new facility, the La Habra warehouse, to replace the four existing facilities and service our food and drug stores.

There are many other smaller Delta initiatives we have implemented that all add up to more savings. For example, we're now using durable plastic pallets, instead of traditional wood pallets, which often break and can cause accidents or damage product. Also, we have worked out arrangements with certain vendors to give us additional discounts if we purchase in whole pallet loads. It saves them time and money to prepare the shipment and they share the savings with us.



Making the transition from several regional operations to a centralized logistics organization requires the enthusiastic support of all the associates involved. Each of our individual divisions have been run by people who are very good at what they do. What we're finding is they're all jumping in with enthusiasm to support the new concept. That is very gratifying.

Co-Manager, Acme
Susan Rorke Lawler

Combination Stores in Philadelphia

This store was tripled in size just a few months ago, when it became an Acme combination store. You've worked in very small stores to a very large one like this. From your perspective, what are some of the differences in working in such a large store?
It's quite a different atmosphere in a small store compared to a large store. I've worked in stores as small as 12,000 square feet with four cash registers to a store such as this with 66,000 square feet and 14 registers. That makes the whole operation of the store more complex and the duties of our associates much more varied. Of course, regardless of the size of the store, our main emphasis is to take care of our customers. In a store like this, there are many more associates, many more customers and more selection. In the produce department for example, we have 400 fresh items we can offer to the customer. Before we expanded the store, we had about 100 produce items. We also have departments here many smaller stores don't have. There's an in-store bakery with a cake decorator and a large floral department, including a floral designer. Most Acme combos also have a full-service pharmacy, a full range of general merchandise, banking services and a new concept, Pet World.

Susan Rorke Lawler has been with Acme for 23 years. A native of Upper Darby, Penn., a Philadelphia suburb, she started as a checker and, eight years ago, when her two children were old enough, she decided to make the commitment to move into management. She's now the co-manager at a recently enlarged Acme combination store in Pike Creek, Del.

How have customers responded to your private label products?
Really, very well. We offer Acme brand products throughout the store, as well as Lancaster Brand meats. It's a high-value item. Customers know that if it says Acme or Lancaster Brand on the label, they're going to get their money's worth. Name recognition and value are a powerful combination. Lancaster is such a popular brand in meats we even published a holiday gift guide for our customers so they could order Lancaster products by mail. It was very well received. We've also been keeping up with changing tastes with private label products such as Acme Salsa.

How well has Acme's SuperCard been received?
It's been a true success. The card gives customers price discounts, allows for clipless Acme coupons and makes it easy for customers to cash checks. We started the program in mid-1996, and within the first 16 weeks, issued over 2 million cards. We first issued them to our associates, so they could learn about them and appreciate their benefits. Then, when customers got the cards, our associates already knew how they worked and were enthusiastic about them. The SuperCard has done amazing things for our business. People who have a SuperCard tend to spend almost four times more in our stores than those without a card. Eighty percent of our dollar volume comes from customers with SuperCards. The Jewel and Lucky divisions had the card program prior to Acme. We were able to learn from them and it made our roll-out that much smoother.

This store has an innovative aisle for pet lovers called Pet World. What's that all about?
This is an Acme innovation. There are many pet owners and they have many options as to where to buy pet foods and pet supplies. We knew if we could offer an excellent pet products selection, these customers would come in and buy not only things for their pets, but also do their grocery shopping here. It's worked out very well. We offer everything from gourmet dog bones to items for small pets like hamsters and gerbils. No other supermarket in our market has anything like this.

What would you say is management's attitude toward associates?
That's changed over the years. We, as management, realize that operating a store is a team effort. When you have a store with this volume, this size, you can't do it yourself. You need to work together. You need to empower your associates, develop their skills and give them the support and backing they need to make good decisions. Management has been very supportive.

We also do whatever we can to give our associates a broad base of experience. We encourage them to work in as many departments within a store as possible so they develop a comprehensive understanding of what Acme is all about.

Acme is growing. With the large capital commitment, we're able to double the number of combo stores that we have now; enlarge them, and make them into big, beautiful stores that demonstrate we're the premium retailer in the market, and customers notice. They can sense the associates are excited about the new store. We can't help but feel special in a store like this. There are a lot of stores around and when you get to work in a big beautiful store, you feel proud of that and that's conveyed to our customers.

Customer
Patricia Karaalp

A Customer's View

What do you look for when you go to a supermarket?
I really love to cook. Almost everything I cook I make from scratch. So when I go to a supermarket, I'm usually shopping for fresh vegetables, fruit, seafood, chicken and the like. I've gone to supermarkets where you pick apples and they're rotten. They're horrible. I've never seen that at a Lucky store. You're sure that what you're getting is fresh. I also want selection, I like having lots of choices. And the meats and seafood have to be top quality. Of course, I want reasonable prices – maybe not the cheapest on any particular item – but overall good prices. And I want the store to be clean and attractive.

Patricia Karaalp has a background about as international as you can find. A native of El Salvador, her parents were Italian, her husband is a native of Turkey, and their three-year-old daughter Talia is American born. Patricia, who is a copywriter at an advertising agency in Los Angeles, likes to use fresh ingredients and spend time cooking meals from scratch. She places a lot of value on stores with a good selection of high-quality perishables. She's been shopping at Lucky stores for years.

What is it about Lucky that you like?
I really like the convenience. There's a Lucky less than two miles from my home. It's very clean, the people are very nice, they're very, very helpful and anytime I need someone to answer a question, they are there. And the quality is great. Also, at Lucky, they're going to have everything you need. And they are consistent in what they have. It's not as if one day you find one brand and another day you don't, like at some other stores.

Have you shopped at a Lucky Sav-on combo store yet?
Yes I have. I like these stores, especially when I have to fill some prescriptions. I kill two birds with one stone by getting my prescriptions filled and doing my regular shopping. Also, Sav-on has a computer so even if I'm not registered at the store, they can just call up my name from another Sav-on pharmacy and fill my prescription. That's a good thing.

Over the years, have you found your shopping habits have changed?
Since I've had my daughter, definitely yes. When my husband and I were just a couple, if we couldn't go to the supermarket for a week or two, that was not a big deal. Now that we have our daughter, of course, you have to go for diapers, you have to go for baby food, so that starts changing your shopping habits. You have to be more organized. You can't go every day to the supermarket when you have a baby. You have to make it a once-a-week deal, or twice-a-week at most.

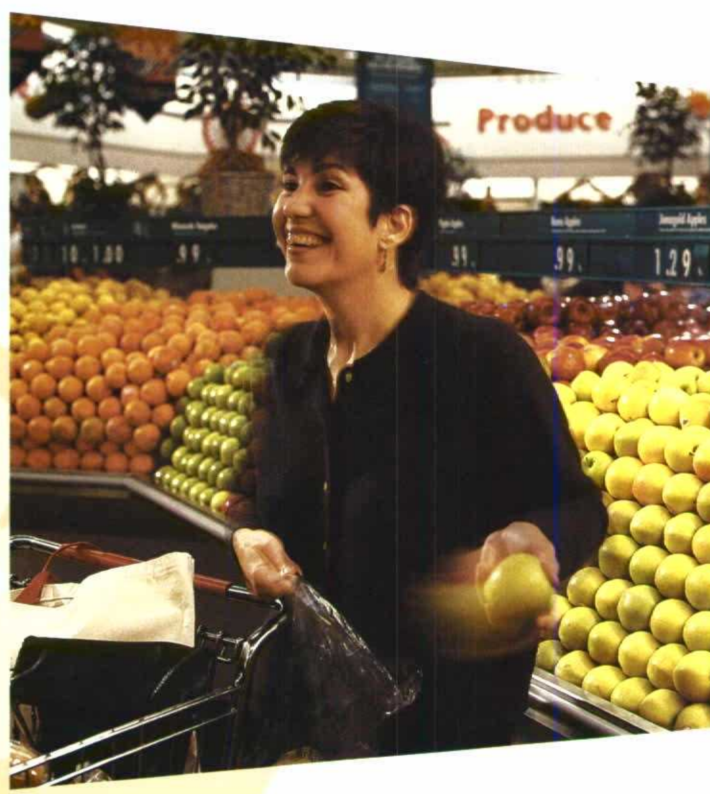
Has Lucky responded to changes in your shopping habits?
Yes, definitely. For example, before, I was never looking for baby products. Now that I am, I find they have all kinds of baby products. My daughter was allergic to cow's milk so we had to look for soy milk, and Lucky had it.

Do you ever use the in-store banking services at Lucky stores?
Oh yes, it's great. I love the convenience of the bank right here in the store. I also feel safer getting cash at the ATM here inside the store instead of at a dark, outside ATM somewhere else.

Do you use the Big Book coupon book and Rewards card?
In the past I was not a big coupon fan. But I've found the Big Book format has made coupons really easy, because I can just take the book with me and while I'm shopping, I can look through the book and see if there's something I'm buying that I have a coupon for. It's very handy. And with the card now I'm able to automatically get all the discounts without having to clip out the coupons.

You've been shopping at Lucky for years. Why are you so loyal?
If I find a place that gives me everything that I'm looking for, and it's comfortable and convenient, I'll keep going back. Lucky gives me what I want. They give me a reason to keep going back. By their ads, their prices and their employees they're consistently giving me a lot of value. I'd be crazy to go anywhere else.

Any comments on the attitudes of employees and managers?
They are very helpful. They always answer my questions. If they don't know something, they're very polite and try to find the answer for me. Sometimes I find employees at other stores answer my questions with "Oh, I don't know", and leave it at that. But at the Lucky store I go to, I don't find that. They try to answer my questions. If they don't know, they call someone else who can help me.



Writer
Alan S. Horowitz

American Stores from the Outside

I spent a good part of this past January traveling around the far reaches of American Stores, interviewing employees and customers for this annual report, and seeing several of the Company's newest stores. I was struck by the dynamism of the Company and how diverse and innovative are both its people and its operation.

In Garden Grove, Calif., I spoke with Mark Vant Hul and Cheryl Beall, who are managing one of the first Lucky Sav-on combination stores. They were proud to be pioneers with this new combo store format, and rightfully so. The store is inviting and offers a unique food and drug store shopping experience. Sue Lawler works at an Acme supermarket in Delaware that has just tripled in size, and was obviously pleased to show off one of the most striking supermarkets in the East. Debra Biggerstaff, a national product manager based in Salt Lake City, discussed how her increased buying power, a result of consolidated purchasing at Company headquarters, has already saved millions of dollars.

While the Company is actively working to bring together its disparate functions into a cohesive whole, it is very sensitive about maintaining individuality in its local markets. Jeff Braley, a marketing manager at Lucky Stores in Oakland, Calif., told me how he is able to benefit from the buying power that has come from centralized purchasing in Salt Lake City, while still being able to address the needs of his local customers. The same is true in the Company's real estate functions. You can't know where to place a store if you don't know an area, which is why, says Donn Scherer, all the Company's real estate managers have remained locally based, even though many real estate administrative functions have been moved to headquarters. The Company has been uncommonly successful at pulling off a delicate balancing act – maintaining local strengths while creating economies that result from consolidation and size.

The Delta project could be a case study of how to turn around a huge ship adrift at sea and head it in an entirely new direction. One of the nation's largest retailers, American Stores during the past few years has undergone dramatic changes. Any outside observer must be impressed at how successfully it has carried off this massive project, and how it is not resting on its accomplishments, but instead is constantly looking for ways to improve. I think it's a testament to the Company and its work force that American Stores is really a very different company than it was just three or four years ago. This may be its greatest achievement.

A constant theme with all the people I spoke with was change – new store formats, new investments in technology and real estate, new relationships between parts of the Company such as marketing and purchasing, new logistical systems, new ways of doing business. This is impressive. To this outsider, American Stores is not just adjusting to changing market and competitive conditions, it is becoming a recognized leader.

The following consolidated selected financial data of the Company for the last five years should be read in conjunction with the consolidated financial statements and related notes appearing on pages 31 to 46.

Comparisons of the results of operations between fiscal years 1992 to 1996 are rendered difficult due to the Company's disposition of stores. These include the disposition of 45 Acme Markets stores in the fourth quarter of 1994, the 33-store Star Market food division in the third quarter of 1994 and 74 Jewel Osco combination food and drug stores in the first quarter of 1992. These disposed of stores generated sales in the amounts of $.8 billion, $1.2 billion and $1.4 billion in 1994, 1993 and 1992, respectively. In addition, all years included 52 weeks except for 1995, which included 53 weeks.

(In thousands of dollars, except per share data)	1996	1995[1]	1994	1993	1992
SALES	$18,678,129	$18,308,894	$18,355,126	$18,763,439	$19,051,180
Earnings before extraordinary item	$ 287,221	$ 316,809	$ 345,184	$ 262,090	$ 207,466
Extraordinary item – early retirement of debt – net of taxes				(15,000)	
NET EARNINGS	$ 287,221	$ 316,809	$ 345,184	$ 247,090	$ 207,466
Average common shares outstanding	145,888	146,943	142,767	142,202	140,314
Earnings per common share before extraordinary item	$1.97	$2.16	$2.42	$1.85	$1.48
Extraordinary item – early retirement of debt – net of taxes				(.11)	
NET EARNINGS PER COMMON SHARE	$1.97[5]	$2.16	$2.42[6]	$1.74	$1.48
FULLY DILUTED EARNINGS PER COMMON SHARE	$1.97[5]	$2.16	$2.33[6]	$1.69	$1.44
Cash dividends declared per common share	$.64	$.56	$.48	$.40	$.36
Total assets	$ 7,881,405	$ 7,362,964	$ 7,031,566	$ 6,927,434	$ 6,763,793
Total debt and obligations under capital leases	$ 2,679,147	$ 2,240,168	$ 2,205,291	$ 2,167,999	$ 2,248,316
Total capital expenditures[2]	$ 999,986	$ 801,371	$ 565,313	$ 652,928	$ 476,617
Total stores[3]	1,695	1,650	1,597	1,695	1,672
Selling area square footage (000's)[4]	33,823	32,523	31,179	32,727	32,320

[1] 53-week fiscal year.
[2] Amount includes capitalized leases and the net present value of property, plant and equipment leased under operating leases
[3] Includes jointly operated combination stores which are each counted as two separate stores
[4] Selling area square footage was 74% of total retail square footage in 1996
[5] Includes special charges totaling $.41 per share of expense
[6] Includes non-recurring items totaling $.39 per share of income

Note: The fiscal year of the Company ends on the Saturday nearest to January 31. All references herein to "1996", "1995", "1994", "1993" and "1992" represent the fiscal years ended February 1, 1997, February 3, 1996, January 28, 1995, January 29, 1994 and January 30, 1993, respectively. All years include 52 weeks except for 1995, which included 53 weeks.

Results of Operations

Comparisons between years are rendered difficult due to (i) the fact that not all fiscal years being compared were the same length; the 1995 fiscal year included 53 weeks while the 1996 and 1994 fiscal years included 52 weeks, and (ii) the disposition of the 33-store Star Market food division in the third quarter of 1994 and the 45 Acme Markets stores in the fourth quarter of 1994 (disposed of operations).

Total sales and the percentage change in comparable store sales (sales from stores that have been open at least one year, including replacement stores) for the 1996 52-week fiscal year, the 1995 53-week fiscal year and the 1994 52-week fiscal year, are set forth in the tables below. Sales from continuing operations increased 2.0% in 1996 and 4.5% in 1995. Adjusting for the extra week in 1995, total sales from continuing operations would have increased 4.0% in 1996 and 2.6% in 1995. The improvement in total and comparable food store operations sales in 1996 is primarily a result of increased capital spending and more effective marketing efforts, including customer loyalty cards and targeted marketing promotions. Total and comparable sales in 1996 also increased due to the impact of a nine-day labor dispute in the first quarter of 1995 in the food store operations. Drug store operations total and comparable sales increased in 1996 due primarily to capital spending and increased pharmacy sales. The increase in 1995 sales from continuing operations is primarily a result of improved performance at both operating divisions and the extra week of operations.

Total Sales

(In millions of dollars)	52 weeks 1996	53 weeks 1995	52 weeks 1994
Food store operations	$13,420	$13,302	$12,959
Drug store operations	5,227	4,995	4,544
Other	31	12	12
Continuing operations	18,678	18,309	17,515
Disposed of operations			840
Total Sales	$18,678	$18,309	$18,355

Comparable Store Sales

(Percentage change)	52 weeks 1996	53 weeks 1995	52 weeks 1994
Eastern food operations	2.2%	1.5%	0.7%
Western food operations	2.4%	(0.8)%	(1.8)%
Drug store operations	5.8%	4.8%	4.2%
Total Change	3.3%	1.4%	0.5%

Beginning in the first quarter of 1996, the Company, in connection with its consolidation efforts, classified advertising expense as a cost of merchandise sold. Previously, these expenses were classified as operating expenses. Prior years have been reclassified to conform to the current year presentation.

Gross profit as a percent of sales increased to 26.6% in 1996, compared to 25.9% in 1995 and 1994. The increase in 1996 gross profit over 1995 is primarily due to benefits realized from centralized procurement, better product mix and lower warehousing costs. Advertising expense also decreased due to the shift from newspaper and print advertising to direct mail targeted marketing. These improvements were partially offset by lower pharmacy margins due to a shift from cash to lower margin third-party customers and a $10.0 million ($.04 per share) special charge to adjust inventories to a common inventory valuation method. Gross profit in 1995 was essentially flat compared to 1994. Gross profit was favorably impacted in 1995 primarily as a result of the disposed of operations, which produced lower margins than the continuing operations, and improvements in the food store operations due to improved product mix and promotional strategies. However, these increases were adversely affected by competitive drug store pharmacy gross margins and the impact of a nine-day labor dispute in the first quarter of 1995 in the food store operations. The annual pre-tax LIFO charge to earnings amounted to $11.4 million in 1996, $12.8 million in 1995 and $8.2 million in 1994.

Operating expense as a percent of sales increased to 22.5% in 1996, compared to 22.1% in 1995 and decreased compared to 23.3% in 1994. The increase in 1996 is primarily due to special charges of $15.5 million ($.06 per share) for severance costs related primarily to the consolidation of certain warehouse and office facilities and increased costs associated with new stores, offset in part by lower self-insurance costs, better overall cost control and improved sales. In 1995, operating expense in the food store operations benefited from the renegotiation of a labor contract with the United Food and Commercial Workers International. The new contract will expire in 1999, and replaced a contract scheduled to expire in 1996. As a result of the early termination of the contract, certain health and welfare savings, which were being recognized over the life of the old contract, were immediately recognized in the third quarter of 1995. Operating expense in the food store operations also decreased in 1995 due to lower self-insurance costs, productivity improvements and better overall cost control, which were partially offset by the impact of the nine-day labor dispute. In addition, improved sales, lower insurance costs and better overall cost control in the drug store operations helped lower 1995 operating expense as a percent of sales. Operating expense in 1994 included charges of $23.9 million ($.10 per share) for centralization of administrative functions, including information technology and accounting and expenses for the consolidation of the computer data centers and a voluntary severance program initiated at Acme Markets, totaling $11.2 million ($.05 per share).

Total operating profit for the last three fiscal years is set forth in the following table. Operating profit from continuing operations increased 7.8% in 1996, 11.9% in 1995 and 4.4% in 1994. Total operating profit was 4.1% of sales in 1996, 3.9% of sales in 1995 and 3.5% of sales in 1994. The increase in 1996 operating profit is primarily due to stronger sales and improved gross profit margins. The increase in 1995 operating profit and operating profit as a percent of sales is primarily due to strong performances from the Company's core operations and the extra week of operations included in 1995. In addition, operating profit in the food store operations improved in 1995 due to successful joint marketing of the combination stores, and lower health and welfare costs associated with the renegotiated labor contract. Operating profit in the drug store operations improved in 1995 due to lower insurance costs and better cost control slightly offset by the start-up costs of 71 new stores, including 17 acquired Clark drug stores.

Operating Profit

(In millions of dollars)	52 weeks 1996	53 weeks 1995	52 weeks 1994
Food store operations	$608.3	$542.9	$504.1
Drug store operations	260.0	245.4	228.5
LIFO charge	(11.4)	(12.8)	(8.2)
Purchase accounting amortization	(78.7)	(76.8)	(78.6)
Other	(16.5)	8.1	(14.1)
Continuing operations	761.7	706.8	631.7
Disposed of operations			18.4
Total Operating Profit	$761.7	$706.8	$650.1

Interest expense increased in 1996 due to increased borrowings including the addition of the $350 million principal amount of 30-year, 8% debentures which partially replaced short-term variable rate debt. Interest expense decreased in 1995 and 1994 due to lower average interest rates resulting from the refinancing of high coupon borrowings at lower rates and lower average debt levels. Interest expense also benefited from the conversion of a portion of the convertible notes from debt to equity in the first quarter of 1995. The caption "Other" in 1996 of $85.6 million included special charges of $74.5 million ($.31 per share) for expenses related mainly to the closure of certain stores, warehouses and offices, and asset impairment charges. The caption "Other" in 1994 of $126.9 million included non-recurring gains of $121.0 million on the sale of the Star Market food division, $41.2 million on the sale of 45 Acme Markets stores and a charge of $31.3 million for closed store costs (totaling $.54 per share).

The Company's effective income tax rates were 43.1% in 1996, 42.5% in 1995 and 43.1% in 1994. The increase in the 1996 effective tax rate is due to lower earnings caused by the special charges, the impact of goodwill charges and lower tax credits. The disposition of assets during 1995 and 1994 in states with higher tax rates resulted in lower effective income tax rates in 1995.

The Company recorded special charges aggregating approximately $100.0 million, before taxes, or $.41 per share, during 1996 related primarily to its Delta initiatives. The Delta initiatives are designed to transform the Company from a holding company to a unified operating company.

The components of the charge include: warehouse consolidation costs, administrative office consolidation costs, closed store costs, asset impairment costs and other miscellaneous charges. The cost of consolidating four general merchandise warehouses into one in southern California totaled $26.4 million and is primarily related to lease termination costs, a reserve for the anticipated loss on the sale of owned facilities (based on management's estimated fair market value) and adjusting inventories to a common inventory valuation method. The cost of consolidating administrative offices in Salt Lake City and Chicago totaled $26.3 million and relates to asset write-offs, lease termination costs and severance costs. The severance components resulted from the Company's commitment to restructure and consolidate human resources, payroll, Drug Store administration and general merchandise buying functions. Closed store costs included mainly lease termination costs and fixed asset write-offs totaling $12.9 million. Asset impairment charges totaling $26.4 million consist of replacements of outdated computer systems and impairment of groups of stores and other assets that do not fit the long-term strategic plan of the Company. In addition, other reserves totaling $8.0 million were recorded. The special charges are included in cost of merchandise sold ($10.0 million), operating and administrative expenses ($15.5 million) and other non-operating expense ($74.5 million). As of year-end 1996, the Company charged $18.0 million against the reserve, of which $12.3 million related to asset impairment. Disposal of impaired assets is expected to be complete in fiscal 1998.

Liquidity and Capital Resources

Cash provided by operating activities decreased by $111.3 million from 1995 to 1996 primarily due to increased inventory related to new warehouses and increased store square footage related to the Company's capital program. Cash and cash equivalents and accounts payable at the end of 1996 were lower than the end of 1995 and 1994 due primarily to the timing of vendor payments at the end of the fiscal year.

Cash capital expenditures amounted to $877.6 million in 1996, $750.9 million in 1995 and $538.0 million in 1994. Additional capital expenditures represented by the net present value of leases amounted to $122.4 million in 1996, $50.5 million in 1995 and $27.3 million in 1994. The increase in capital expenditures in 1996 reflects the Company's commitment to its expanded capital expenditure program announced in 1992.

The following table shows store counts for new, remodeled and closed stores in total and net of jointly operated combination stores, which are counted in a food store division and a drug store division as two separate stores:

STORE COUNTS

	Projected 1997	1996	1995	1994
NEW				
Gross	100	122	92	49
Combination stores	20	23	5	4
NET NEW STORES	80	99	87	45
REMODELS				
Gross	100	94	223	166
Combination stores	20	10	25	11
NET REMODELS	80	84	198	155
CLOSED				
Gross		77	39	147
Combination stores		10	1	3
NET CLOSED STORES		67	38	144

Capital expenditures for fiscal 1997, including the net present value of leases, are expected to approximate $1.0 billion and will be funded through cash flow from operations, credit facilities and other long-term borrowings.

In June of 1996, the Company issued $350 million, 8.0% debentures due June 1, 2026 at 99.3% to yield 8.1% under an $800 million shelf registration statement filed on February 18, 1994. The Company received net proceeds of approximately $344 million which were used to pay off financings totaling $100 million at an average interest rate of 8.25% and to refinance additional short-term variable rate borrowings under the Company's principal bank credit agreement.

The net increase in debt, including capitalized leases, was $439.0 million and $34.9 million in 1996 and 1995, respectively. The increases are due to changes in working capital, increased capital spending and repurchases of common stock in 1996 and 1995.

The Company's principal bank credit agreement at year-end 1996 was a $1.0 billion revolving credit facility which expires in 1999 and is used for direct borrowings and as backup support for commercial paper. The Company also has $250 million of 364-day committed bank lines and $320 million of uncommitted bank lines, which are used for overnight and short-term bank borrowings and $250 million in availability under a shelf registration statement. At year-end 1996, the Company had $957 million of debt supported by the credit facility and $183 million outstanding under bank lines, leaving unused committed borrowing capacity of $110 million.

On March 28, 1997, the Company increased the capacity of its existing revolving credit facility from $1 billion to $2 billion, which includes a $1.5 billion five-year revolving credit facility and a $500 million 364-day revolving credit facility (the Amended Credit Facilities). See Subsequent Events discussion following.

In June of 1996, the Company replaced its existing stock repurchase program with a new repurchase program which authorizes the repurchase of up to two million shares of common stock. During 1996 the Company repurchased 1.1 million shares of its common stock at an average price of $34.67 per share in accordance with the Company's stock repurchase programs. As of February 1, 1997, an additional 1.9 million shares remained authorized for repurchase.

Working capital amounted to $364.8 million at year-end 1996 compared to $96.3 million at year-end 1995 and $200.7 million at year-end 1994. Cash and cash equivalents and accounts payable at the end of 1996 were lower than at the end of 1995 primarily due to the timing of vendor payments at the end of the fiscal year. Inventory increased due to new warehouses and increased store square footage related to the Company's capital program.

The Company's ratio of total debt (debt plus obligations under capital leases) to total capitalization (total debt plus common shareholders' equity) amounted to 51.4%, 48.8% and 51.8% at year-end 1996, 1995 and 1994, respectively.

The Company believes that its cash flow from operations, supplemented by the Amended Credit Facilities, committed and uncommitted credit facilities, other long-term borrowings, $250 million in availability under a shelf registration statement, as well as its ability to refinance debt, will be adequate to meet its presently identifiable cash requirements.

During 1996, the Company entered into an interest rate swap agreement with a notional amount of $200 million, for the purpose of hedging the interest rate on debt the Company anticipates issuing in 1997 under the shelf registration statement. The estimated fair value of the interest rate swap agreement based on market quotes at year-end 1996 was $2.8 million.

The Company also uses derivative financial instruments to manage interest and currency risks on a foreign borrowing, due in 1999, that had an outstanding principal balance of $160 million at year-end 1996.

The Company is exposed to credit losses in the event of nonperformance by the counterparties to its swap agreements. Such counterparties are highly-rated financial institutions and the Company anticipates they will be able to satisfy their obligations under the contracts.

Contingencies

The Company has identified environmental contamination sites related primarily to underground petroleum storage tanks at various store, warehouse, office and manufacturing facilities (related to current operations as well as previously disposed of businesses). Although the ultimate outcome and expense of environmental remediation is uncertain, the Company believes that the required costs of remediation and continuing compliance with environmental laws, in excess of current reserves, will not have a material adverse effect on the financial condition or operating results of the Company.

Inflation

In recent years, the impact of inflation on the Company's results of operations has been moderate. As operating expenses and inventory costs have increased, the Company, to the extent permitted by competition, has recovered these increases in costs by increasing prices over time.

The Company uses the LIFO (last-in, first-out) method of accounting for the majority of its inventories. Under this method, the cost of merchandise sold reported in the financial statements approximates current costs and thus reduces the distortion in reported earnings due to increasing costs.

The historical costs of property, plant and equipment recorded by the Company were incurred over a period of many years. The cost of replacing property, plant and equipment is generally greater than the cost on the books of the Company as a result of inflation that has occurred over the years since the property, plant and equipment were placed in service.

Delta Initiatives

Delta is a series of initiatives designed as a self-consolidation and re-engineering program that is transforming the Company from a holding company to an operating company. Prior to Delta, the Company operated as seven autonomous companies with different systems and processes. The goal of Delta is to build on the size of the Company and to develop common business processes and systems to best manage growth for the future. Delta is designed to improve the Company's ability to purchase products and move them through the supply-chain more quickly, efficiently and cost-effectively, which also results in more efficient store operations. It seeks to achieve these goals through changes in the Company's purchasing, warehousing, inventory control and distribution systems. The information gathered from the common systems and processes assists the Company's marketing and merchandising programs. Each Delta initiative has a different timeline, but the majority of the supply-chain initiatives are targeted for completion by the end of 1997. Management believes the benefits of Delta will begin to exceed costs for the second half of 1997. To continue to meet customer needs, the Company intends to maintain store operations, marketing and merchandising on a local level. Some examples of how Delta has been implemented into the business are: (i) centralization of the procurement and logistics groups; (ii) execution of national contracts with selected vendors for greeting cards, photo-finishing, spices, magazines and, most recently, whole-bean coffee; (iii) installation of computerized warehouse systems in over 90% of the Company's warehouses, reducing labor cost and increasing the efficiency of replenishment; (iv) consolidation of four general merchandise warehouses in southern California into a single facility; and (v) consolidation of administrative, real estate, construction and information technology functions.

Subsequent Events

On February 20, 1997, the Company and the family of L. S. Skaggs entered into an agreement for the repurchase by the Company of 12.2 million shares of its common stock from the Skaggs family and certain family and charitable trusts for $45 per share, the closing price on the date of the agreement (the Repurchase). Pursuant to the agreement, the Company filed, at its cost, a registration statement to enable such shareholders to sell 15.4 million additional shares in a secondary offering. The closing of the secondary offering, at $43 per share, and the Repurchase was consummated on April 8, 1997. In addition, the Company has granted the underwriters for the offering an option to purchase an additional 2.3 million shares to cover over-allotments. If the option is exercised, these additional shares would be primary shares to be issued by the Company. The Company has agreed to reimburse the selling shareholders for underwriting fees, legal fees and other expenses incurred by them in connection with the transactions.

The selling shareholders have agreed to enter into a 10-year standstill agreement restricting purchases and sales of the Company's shares, proxy fights and other actions.

The Company plans to finance the $550 million Repurchase initially through the Amended Credit Facilities. Subject to market conditions, the Company expects to refinance the indebtedness incurred in connection with the Repurchase through public equity and/or debt issuances over the next six to 12 months.

In anticipation of the expiration of the 1992 Key Executive Stock Purchase Incentive Plan, the Board of Directors recently approved a new stock-based management incentive program. A total of approximately 3.1 million shares were granted under a new plan and an existing plan at an exercise price of $45 per share.

Cautionary Note

This report contains certain forward-looking statements about the future performance of the Company which are based on management's assumptions and beliefs in light of the information currently available to it. These forward-looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements including, but not limited to: competitive practices and pricing in the food and drug industries generally and particularly in the Company's principal markets; the ability of the Company to implement the Company's Delta initiatives in accordance with the currently contemplated schedule and budget; changes in the financial markets which may affect the Company's cost of capital and the ability of the Company to access the public debt and equity markets to refinance indebtedness and fund the Company's capital expenditure program on satisfactory terms; supply or quality control problems with the Company's vendors; and changes in economic conditions which affect the buying patterns of the Company's customers.

Ernst & Young LLP

Shareholders and Board of Directors
American Stores Company

We have audited the accompanying consolidated balance sheets of American Stores Company and subsidiaries as of February 1, 1997, February 3, 1996 and January 28, 1995, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the three fiscal years in the period ended February 1, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of American Stores Company and subsidiaries at February 1, 1997, February 3, 1996 and January 28, 1995, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended February 1, 1997, in conformity with generally accepted accounting principles.

Ernst + Young LLP

March 14, 1997, except for the Subsequent Events note,
as to which the date is April 8, 1997
Salt Lake City, Utah

(In thousands, except per share data)	52 weeks 1996	53 weeks 1995	52 weeks 1994
SALES	$18,678,129	$18,308,894	$ 18,355,126
Cost of merchandise sold, including warehousing and transportation expenses	13,713,151	13,558,690	13,603,882
GROSS PROFIT	4,964,978	4,750,204	4,751,244
Operating and administrative expenses	4,203,302	4,043,381	4,101,176
OPERATING PROFIT	761,676	706,823	650,068
Other Income (Expense):			
Interest expense	(171,558)	(159,545)	(170,703)
Other	(85,566)	3,638	126,898
Total other income (expense)	(257,124)	(155,907)	(43,805)
EARNINGS BEFORE INCOME TAXES	504,552	550,916	606,263
Federal and state income taxes	(217,331)	(234,107)	(261,079)
NET EARNINGS	$ 287,221	$ 316,809	$ 345,184
Average shares outstanding	145,888	146,943	142,767
NET EARNINGS PER SHARE	$1.97	$2.16	$2.42
FULLY DILUTED EARNINGS PER SHARE	$1.97	$2.16	$2.33

See notes to consolidated financial statements

(In thousands of dollars, except per share data)	1996	Year-end 1995	1994
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 37,467	$ 102,422	$ 195,689
Receivables	318,878	319,688	291,760
Inventories	1,725,542	1,572,242	1,526,770
Prepaid expenses	66,510	69,098	48,711
Deferred income tax benefits	18,099	20,517	69,165
TOTAL CURRENT ASSETS	2,166,496	2,083,967	2,132,095
PROPERTY, PLANT AND EQUIPMENT, at cost			
Land	636,068	597,804	522,014
Buildings	1,803,752	1,399,561	1,221,871
Fixtures and equipment	2,616,633	2,415,326	2,168,826
Leasehold improvements	781,454	736,682	654,441
	5,837,907	5,149,373	4,567,152
Less accumulated depreciation and amortization	2,250,876	2,019,557	1,800,714
NET PROPERTY, PLANT AND EQUIPMENT	3,587,031	3,129,816	2,766,438
PROPERTY UNDER CAPITAL LEASES, less accumulated amortization of $110,379 in 1996, $106,993 in 1995 and $103,760 in 1994	66,682	76,084	84,690
GOODWILL, less accumulated amortization of $471,150 in 1996, $418,006 in 1995 and $365,271 in 1994	1,665,242	1,722,892	1,771,121
OTHER ASSETS	395,954	350,205	277,222
TOTAL ASSETS	$7,881,405	$7,362,964	$7,031,566

(In thousands of dollars, except per share data)	Year-end 1996	1995	1994
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES			
Current maturities of long-term debt	$ 56,703	$ 125,413	$ 132,019
Current obligations under capital leases	9,300	9,739	9,195
Accounts payable	851,285	996,354	883,329
Accrued payroll and benefits	325,806	331,843	350,637
Current portion of self-insurance reserves	121,144	153,464	179,595
Income taxes payable	21,290	17,292	46,170
Other current liabilities	416,153	353,598	330,486
TOTAL CURRENT LIABILITIES	1,801,681	1,987,703	1,931,431
LONG-TERM DEBT, less current maturities	2,556,734	2,038,636	1,988,710
OBLIGATIONS UNDER CAPITAL LEASES, less current obligations	56,410	66,380	75,367
SELF-INSURANCE RESERVES, less current portion	403,981	434,028	464,119
DEFERRED INCOME TAXES	348,846	365,978	320,814
OTHER LIABILITIES	178,326	115,743	200,204
SHAREHOLDERS' EQUITY			
Common stock of $1.00 par value, authorized 325,000,000 shares; issued 149,889,236 shares in 1996 and 1995 and 144,542,156 shares in 1994	149,889	149,889	144,542
Additional paid-in capital	362,561	345,118	216,418
Retained earnings	2,136,744	1,942,874	1,708,672
Less cost of treasury stock; 3,974,595 shares in 1996, 3,441,451 shares in 1995 and 1,571,094 shares in 1994	(113,767)	(83,385)	(18,711)
TOTAL SHAREHOLDERS' EQUITY	2,535,427	2,354,496	2,050,921
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$7,881,405	$7,362,964	$7,031,566

See notes to consolidated financial statements

(In thousands of dollars)	52 weeks 1996	53 weeks 1995	52 weeks 1994
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings	$287,221	$316,809	$345,184
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	440,445	404,562	407,286
Net loss (gain) on asset sales	265	(3,219)	(158,448)
Self-insurance reserves	(62,367)	(56,222)	(22,229)
Other	59,654	(92,688)	(88,160)
(Increase) decrease in current assets:			
Receivables	810	(32,694)	(26,037)
Inventories	(152,920)	(54,645)	(46,149)
Prepaid expenses	5,006	28,164	(10,347)
(Decrease) increase in current liabilities:			
Accounts payable	(145,069)	124,750	(44,369)
Other current liabilities	66,759	23,305	(49,866)
Accrued payroll and benefits	(6,037)	(18,794)	41,108
Income taxes payable	3,998	(30,249)	(66,611)
Total adjustments	210,544	292,270	(63,822)
Net cash provided by operating activities	497,765	609,079	281,362
CASH FLOWS FROM INVESTING ACTIVITIES:			
Expended for property, plant and equipment	(877,630)	(750,914)	(538,033)
Proceeds from disposition of operations			377,618
Proceeds from sale of assets	47,670	50,511	21,680
Land investments	(65,450)	(21,697)	(7,262)
Net cash used in investing activities	(895,410)	(722,100)	(145,997)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term borrowing	350,000	278,500	530,000
Net addition to (reduction of) existing long-term debt	99,388	(114,869)	(479,967)
Principal payments for obligations under capital leases	(10,409)	(10,332)	(12,741)
Proceeds from exercise of stock options, other	24,860	22,049	31,996
Repurchase of common stock	(37,798)	(72,987)	
Cash dividends	(93,351)	(82,607)	(68,544)
Net cash provided by financing activities	332,690	19,754	744
Net (decrease) increase in cash and cash equivalents	(64,955)	(93,267)	136,109
CASH AND CASH EQUIVALENTS:			
Beginning of year	102,422	195,689	59,580
END OF YEAR	$ 37,467	$102,422	$195,689

See notes to consolidated financial statements

(In thousands of dollars, except per share data)	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Total
Balances at Beginning of 1994	$144,542	$190,173	$ 1,432,032	$ (24,462)	$1,742,285
Net earnings – 1994 (52 weeks)			345,184		345,184
Issuance of 427,512 shares of stock for stock options and awards		2,629		5,259	7,888
Dividends ($.48 per share)			(68,544)		(68,544)
Stock Purchase Incentive Plans including issuance of 40,000 shares		21,245		496	21,741
Purchase of 152 shares for treasury				(4)	(4)
Other		2,371			2,371
Balances at Year-end 1994	$144,542	$216,418	$ 1,708,672	$ (18,711)	$2,050,921
Net earnings – 1995 (53 weeks)			316,809		316,809
Issuance of 592,143 shares of stock for stock options and awards		914		7,583	8,497
Dividends ($.56 per share)			(82,607)		(82,607)
Stock Purchase Incentive Plans including issuance of 60,000 shares		3,869		733	4,602
Conversion of convertible notes	5,347	119,215			124,562
Purchase of 124 shares for treasury				(3)	(3)
Stock Repurchase Program 2,522,500 shares				(72,987)	(72,987)
Other		4,702			4,702
Balances at Year-end 1995	$149,889	$345,118	$1,942,874	$ (83,385)	$2,354,496
Net earnings – 1996 (52 weeks)			287,221		287,221
Issuance of 563,664 shares of stock for stock options, awards and Employee Stock Purchase Plan (ESPP)		7,891		7,497	15,388
Dividends ($.64 per share)			(93,351)		(93,351)
Stock Purchase Incentive Plans		8,856			8,856
Purchase of 6,562 shares for treasury, including ESPP buybacks		(103)		(78)	(181)
Stock Repurchase Program 1,090,000 shares				(37,798)	(37,798)
Other		799		(3)	796
Balances at Year-end 1996	$149,889	$362,561	$2,136,744	$(113,767)	$2,535,427

See notes to consolidated financial statements

Nature of Operations

American Stores Company is one of the nation's leading food and drug retailers, operating 1,695 stores in 27 states, including 166 combination stores which are jointly operated by a food store division and a drug store division and are counted as two separate stores. The Company operates in a single industry segment and its principal lines of business are food, drug and combination food/drug stores. Food stores account for more than two-thirds of the Company's sales and operating profit. Principal markets include California, Illinois, New Jersey, Pennsylvania, Indiana and Arizona, where products are sold primarily to retail customers.

Significant Accounting Policies

Fiscal Year. The fiscal year of the Company ends on the Saturday nearest to January 31. All references herein to "1996", "1995" and "1994" represent the 52-week fiscal year ended February 1, 1997, the 53-week fiscal year ended February 3, 1996, and the 52-week fiscal year ended January 28, 1995, respectively.

Basis of Consolidation. The consolidated financial statements include the accounts of American Stores Company and all subsidiaries. Accordingly, all references herein to "American Stores Company" include the consolidated results of its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents. The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair value. The balance of cash was higher at year-end 1994 due to proceeds held from the sale of the Star Market food division and 45 Acme Markets stores.

Depreciation and Amortization. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of owned assets. Leasehold improvements and leased properties under capital leases are amortized over the estimated useful life of the property or over the term of the lease, whichever is shorter. The depreciable lives are primarily 20 to 40 years for buildings, 3 to 10 years for fixtures and equipment and 10 to 30 years for leasehold improvements and property under capital lease, depending on the life of the lease. Depreciation expense related to property, plant and equipment amounted to $359.9 million, $324.5 million and $316.2 million in fiscal 1996, 1995 and 1994, respectively.

Goodwill. Goodwill, principally from the acquisition of Lucky Stores, Inc. in 1988, represents the excess of cost over fair value of net assets acquired and is being amortized over 40 years using the straight-line method.

Costs of Opening and Closing Stores. The costs of opening new stores are charged against earnings as incurred. When operations are discontinued and a store is closed, the remaining investment, net of salvage value, is charged against earnings and, for leased stores, a provision is made for the remaining lease liability, net of expected sublease income.

Income Taxes. The Company provides for deferred income taxes or credits as temporary differences arise in recording income and expenses between financial reporting and tax reporting. Amortization of goodwill is not deductible for purposes of calculating income tax provisions.

Net Earnings Per Share. Net earnings per share are determined by dividing the weighted average number of shares outstanding during the year into net earnings. Common share equivalents in the form of stock options are excluded from the calculation of net earnings per share since they do not have a material dilutive effect on per share figures. Fully diluted earnings per share in 1994 include the assumed conversion of subordinated convertible debt.

Environmental Remediation Costs. Costs incurred to investigate and remediate contaminated sites, caused primarily by defective underground petroleum storage tanks and ground water contamination, are accrued when identified and estimable. The related costs are expensed unless the remediation extends the economic useful life of the assets employed at the site.

Significant Accounting Policies (Concluded)

Self-insurance. The Company is self-insured for property loss, workers' compensation, general liability and automotive liability, subject to specific retention levels. The Company is required in certain cases to obtain letters of credit to support its self-insured status. At year-end 1996, the Company's self-insured liabilities were supported by approximately $221.1 million of undrawn letters of credit. The Company is also self-insured for health care claims for eligible active and retired associates. Consulting actuaries assist the Company in determining its liability for self-insured claims. Self-insured liabilities, with the exception of postretirement health care benefits, are not discounted.

Impairment. Impairment is recognized on long-lived assets when indicators of impairment are present and the undiscounted cash flows are less than the related assets' carrying value.

Stock-based Compensation. The Company continues to account for stock-based compensation using the intrinsic value method and provides pro forma footnote disclosure of the impact of the fair value method.

Inventories

Approximately 94% of inventories are accounted for using the LIFO (last-in, first-out) method for inventory valuation. If the FIFO and average cost methods had been used, inventories would have been $324.5 million, $313.1 million and $300.3 million higher at year-end 1996, 1995 and 1994, respectively. The LIFO charge to earnings was $11.4 million in 1996, $12.8 million in 1995 and $8.2 million in 1994. Under this method, the cost of merchandise sold that is reported in the financial statements approximates current costs and thus reduces the distortion in reported earnings due to increasing cost.

Advertising Expense

Beginning in the first quarter of 1996, the Company, in connection with its consolidation efforts, classified advertising expense as a cost of merchandise sold. Previously these expenses were classified as operating and administrative expenses. Prior years have been reclassified to conform to the current year presentation.

The Company expenses advertising costs when the advertisement occurs. Total advertising expense amounted to $133.2 million, $168.3 million and $167.2 million in 1996, 1995 and 1994, respectively. Capitalized advertising costs are immaterial for the periods presented.

Disposition of Operations

On September 8, 1994, the Company sold its 33-store Star Market food division with a basis of $167.0 million for $288.0 million and the assumption of substantially all of its outstanding liabilities. On January 19, 1995, the Company sold 45 of its Acme Markets stores with a basis of $48.4 million for $89.6 million. The assets sold consisted primarily of property, plant, equipment and inventories.

Debt

In June of 1996, the Company issued $350 million, 8.0% debentures due June 1, 2026 at 99.3% to yield 8.1% under an $800 million shelf registration statement filed on February 18, 1994. The Company received net proceeds of approximately $344 million which were used to pay off financings totaling $100 million at an average interest rate of 8.25% and to refinance additional short-term variable rate borrowings under the Company's principal bank credit agreement.

The Company's principal bank credit agreement at year-end 1996 was a $1.0 billion revolving credit facility, which expires in 1999. Interest rates for borrowings under the facility are established at the time of borrowing through four different pricing options. Terms of the revolving credit facility provide for borrowings from participating banks or borrowings through issuance of commercial paper that is supported by the facility. The credit facility provides for a covenant of cash flow to total debt. The Company also has $250 million of 364-day committed bank lines and $320 million of uncommitted bank lines, which are used for overnight and short-term bank borrowings. At year-end 1996, the Company had $957 million of debt supported by the credit facility and $183 million outstanding under bank lines, leaving unused committed borrowing capacity of $110 million. The Company has classified short-term borrowings as long-term due to its intent and ability to refinance these borrowings on a long-term basis.

The Company capitalized interest costs associated with construction projects of $10.6 million, $8.5 million and $3.9 million in 1996, 1995 and 1994, respectively. The Company made cash payments for interest (net of amounts capitalized) of $160.8 million, $169.5 million and $172.0 million in 1996, 1995 and 1994, respectively.

DEBT (CONTINUED)

The aggregate amounts of debt maturing in each of the next five fiscal years are listed below:

(In thousands of dollars)	
1997	$ 56,703
1998	72,786
1999	1,323,382
2000	148,484
2001	23,383
Thereafter	988,699
TOTAL DEBT	$2,613,437

The Company's various loans secured by real estate are collateralized by properties with a net book value of $186.8 million at year-end 1996.

A summary of debt is as follows:

(In thousands of dollars)	1996	1995	1994
PUBLIC DEBT (UNSECURED):			
8.0% Debentures due 2026	$ 350,000		
7.4% Notes due 2005	200,000	$ 200,000	
Medium Term Notes – fixed interest rates due 1997 through 2003 – average interest rate 7.9%	250,000	250,000	$ 250,000
9-1/8% Notes due 2002	249,191	249,075	248,966
7-1/4% Convertible Subordinated Notes due 2001			174,997
BANK BORROWINGS (UNSECURED):			
Revolving credit facility – variable interest rates, effectively due 1999 – average interest rates 5.7% in 1996, 6.2% in 1995 and 4.8% in 1994	957,000	865,000	645,000
Lines of credit and commercial paper – variable interest rates, effectively due 1999 – average interest rates 5.6% in 1996, 6.4% in 1995 and 4.7% in 1994	183,000	69,000	210,000
Other borrowings – due 2000 – average interest rates 6.6% in 1996, 6.5% in 1995 and 8.8% in 1994	75,000	125,000	175,000
OTHER UNSECURED DEBT:			
9.8% due in 1999	160,000	210,000	210,000
10.6% due in 2004	108,893	108,893	108,893
Other – due through 2001	2,988	3,625	4,211
DEBT SECURED BY REAL ESTATE:			
Fixed interest rates – due through 2014 – average interest rate 13.3% in 1996, 13.3% in 1995 and 13.4% in 1994	77,365	83,456	93,662
Outstanding debt	2,613,437	2,164,049	2,120,729
Less current maturities	56,703	125,413	132,019
LONG-TERM DEBT	$2,556,734	$2,038,636	$1,988,710

During 1996, the Company entered into an interest rate swap agreement with a notional amount of $200 million, for the purpose of hedging the interest rate on a portion of the debt the Company anticipates issuing in 1997 under the shelf registration statement. The 10-year swap calls for the payment of a fixed interest rate of 6.7% (comprised of a 10-year treasury rate of 6.3% plus the swap rate) and the receipt of a variable interest rate. Net interest paid or received related to such agreement at the time of the debt issuance will be recorded using the accrual method and will be amortized in interest expense over the life of the financing. As of year-end 1996, the estimated fair value of the swap agreement based on market quotes was $2.8 million.

DEBT (CONCLUDED)

The Company also uses derivative financial instruments to manage interest and currency risks on the 9.8% unsecured debt due in 1999, and accounts for it as a hedge. The borrowing totaled 22 billion yen at a yen interest rate of 6.0%. At the time the loan originated, the Company entered into an interest rate and currency exchange swap agreement (swap) that matches the interest and principal payments of the yen loan. Under the swap agreement, the Company makes fixed rate interest payments of 9.8% and principal payments totaling $160 million and receives payments equal to the underlying yen loan obligation. The proceeds, in yen, from this swap are used to satisfy the yen-based interest and will be used to satisfy the principal payment. As of year-end 1996, the estimated fair value of the remaining swap agreement based on market quotes was approximately $28 million and equaled the loss on the yen loans due to currency and interest rate movements, resulting in an aggregate fair value of zero.

The Company is exposed to credit losses in the event of nonperformance by the counterparties to its swap agreements. Such counterparties are highly-rated financial institutions and the Company anticipates they will be able to satisfy their obligations under the contracts.

The carrying amounts of the Company's bank borrowings with variable interest rates approximate fair value. The fair value of the Company's borrowings with fixed interest rates is estimated using discounted cash flow analyses, based on current market rates where available, or on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The fair value of outstanding debt as of year-end 1996 was $2.7 billion compared to the carrying value of $2.6 billion.

LEASES

The Company leases retail stores, offices, warehouses and distribution facilities. Initial lease terms average approximately 20 years, plus renewal options, and may provide for contingent rent based on sales volume in excess of specified levels.

The summary below shows the aggregate future minimum rent commitments at year-end 1996 for both capital and operating leases. Operating leases are shown net of an aggregate $76.5 million of minimum rent income receivable under non-cancellable subleases. Operating leases also exclude the amortization of acquisition-related fair value adjustments.

(In thousands of dollars)	Operating Leases	Capital Leases
1997	$ 172,144	$15,008
1998	154,317	13,655
1999	144,341	12,016
2000	131,477	9,775
2001	118,327	8,316
Thereafter	944,774	51,030
TOTAL MINIMUM RENT COMMITMENTS	$1,665,380	109,800
Less executory costs (such as taxes, insurance and maintenance) included in capital leases		1,008
Net minimum lease payments		108,792
Less amount representing interest		43,082
OBLIGATIONS UNDER CAPITAL LEASES, INCLUDING $9.3 MILLION DUE WITHIN ONE YEAR		$65,710

Rent expense, excluding the amortization of acquisition-related fair value adjustments of $14.2 million in 1996, $14.3 million in 1995 and $14.5 million in 1994, was as follows:

(In thousands of dollars)	Minimum Rent	Sublease Rent	Net	Contingent Rent	Total Rent
1996	$189,105	$15,663	$173,442	$24,305	$197,747
1995	$180,933	$14,782	$166,151	$26,003	$192,154
1994	$184,116	$ 9,064	$175,052	$26,508	$201,560

INCOME TAXES

Federal and state income taxes charged to earnings are summarized below:

(In thousands of dollars)	52 weeks 1996	53 weeks 1995	52 weeks 1994
CURRENT:			
Federal	$206,313	$124,317	$229,052
State	25,731	15,979	34,906
DEFERRED:			
Federal	(12,948)	81,859	(2,469)
State	(1,765)	11,952	(410)
FEDERAL AND STATE INCOME TAXES	$217,331	$234,107	$261,079

Cash payments of income taxes were $226.8 million, $169.2 million and $354.6 million in 1996, 1995 and 1994, respectively.

The Company's effective income tax rate differs from the statutory federal income tax rate as follows:

(Percent of earnings before income taxes)	52 weeks 1996	53 weeks 1995	52 weeks 1994
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income tax rate, net of federal income tax effect	4.8	5.1	5.7
Goodwill amortization	4.2	3.8	3.6
Tax credits	(0.1)	(0.4)	(0.6)
Other	(0.8)	(1.0)	(0.6)
EFFECTIVE INCOME TAX RATE	43.1%	42.5%	43.1%

Deferred tax benefits and liabilities as of year-end 1996 related to the following temporary differences:

(In thousands of dollars)	Benefits	Liabilities	Total
Basis in fixed assets	$ 33,678	$(259,105)	$(225,427)
Self-insurance reserves	191,391		191,391
Purchase accounting valuation	48,546	(327,530)	(278,984)
Compensation and benefits	45,609	(62,121)	(16,512)
Other, net	91,415	(92,630)	(1,215)
DEFERRED TAX BENEFITS AND LIABILITIES	$410,639	$(741,386)	$(330,747)

No valuation allowances have been considered necessary in the calculation of deferred tax benefits.

STOCK COMPENSATION PLANS

The Company has two stock-based compensation plans, which are described below.

FIXED STOCK OPTION PLANS

The Company's 1989 Stock Option and Stock Awards Plan (1989 Plan) provides for the grant of options to purchase shares of common stock and the issuance of restricted stock awards for an aggregate of up to 4.8 million shares of common stock, subject to certain antidilution adjustments. At year-end 1996, there were 1.8 million shares reserved for future grants under the 1989 Plan.

A summary of the Company's stock option activity and related information for 1996, 1995 and 1994 follows:

	1996		1995		1994	
(Options in thousands)	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding at beginning of year	1,920	$22.73	1,360	$11.24	2,183	$11.20
Granted	1,356	$35.81	1,548	$24.40		
Exercised	(135)	$17.40	(826)	$ 7.28	(610)	$12.14
Forfeited/Expired	(126)	$25.99	(162)	$21.01	(213)	$ 8.26
OUTSTANDING AT END OF YEAR	3,015	$28.71	1,920	$22.73	1,360	$11.24
EXERCISABLE AT END OF YEAR	212		237		457	
RESERVED FOR FUTURE GRANTS	1,798		3,117		4,503	

At year-end 1996, there were stock options for 2.4 million shares outstanding under the 1989 Plan, which expire in 2004 and 0.6 million options outstanding under an expired plan, which expire through 2002. Exercise prices for outstanding options as of year-end 1996 ranged from $13.69 to $35.81 and the weighted-average remaining contractual life of those options is 5.9 years. Compensation expense related to other options decreased pre-tax earnings by $3.4 million in 1995 and $2.9 million in 1994.

EMPLOYEE STOCK PURCHASE PLAN

The Company's Employee Stock Purchase Plan (ESPP), which began January 1, 1996 enables eligible employees of the Company to subscribe for shares of common stock on quarterly offering dates at a purchase price which is the lesser of 85% of the fair market value of the shares on the first day or the last day of the quarterly offering period. For financial reporting purposes, the discount of 15% is treated as equivalent to the cost of issuing stock. During 1996, employees contributed $13.6 million into the ESPP program and 0.5 million shares were issued. There were no shares issued in 1995. At year-end 1996, 6.5 million shares were available for future issuances.

FAIR VALUE DISCLOSURES

The Company's pro forma compensation expense under the fair value method, utilizing the Black-Scholes option valuation model, for fixed stock options granted in 1996 and 1995 and for the ESPP in 1996, after income taxes, was $4.8 million for 1996 and $.8 million for 1995. Pro forma net income would have been $282.4 million in 1996 and $316.0 million in 1995. Earnings per share would have been $1.94 per share for 1996 and $2.15 per share for 1995 for primary earnings per share and $1.93 per share for 1996 and $2.15 per share for 1995 for fully diluted earnings per share.

The fair value for these options was estimated at the date of grant assuming an expected volatility of 21% and a dividend yield of 1.9%. Other assumptions for 1996 and 1995 are as follows:

	1996	1996 ESPP	1995
Average risk-free interest rate	6.1%	5.1%	6.8%
Average life of options (years)	4.0	0.25	5.0
Average vesting date (years)	3.0	2.0	5.0

STOCK COMPENSATION PLANS (CONCLUDED)

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of fair value of its employee stock options.

Because the fair value method of accounting for stock-based compensation has not been applied to options granted prior to January 1, 1995, the preceding pro forma compensation cost may not be representative of that to be expected in future years.

STOCK PURCHASE INCENTIVE PLANS

In 1992, the Company's shareholders approved both the American Stores Company Key Executive Stock Purchase Incentive Plan and the American Stores Company Board of Directors Stock Purchase Incentive Plan (Plans). The Plans are intended to promote the long-term growth and financial success of the Company, and to strengthen the link between management and shareholders. The Board of Directors Plan was terminated on March 21, 1995, however the termination does not affect the terms of any awards outstanding on the date of termination.

Since the Plans' inception, the Company has awarded to certain directors and key executive officers the right to purchase a specified number of shares of the Company's stock and extended to such directors and officers full recourse interest bearing purchase loans to acquire the stock. The stock purchased by the directors and officers with the purchase loans was issued from treasury shares. The purchase loans have an eight-year term and accrue interest at rates ranging from 5.3% to 7.8%. The acquisition price of the stock was the average of the high and low value on the day acquired, as reported on the New York Stock Exchange. Shares held by the executives and directors pursuant to the Plans were 1.8 million for 1996, 2.1 million for 1995 and 1994, with corresponding loan balances of $40.7 million, $42.6 million and $40.3 million, respectively. The aggregate principal of these notes outstanding is recorded as a reduction of additional paid-in capital in the balance sheet.

Participants purchasing stock under the Plans are eligible for a deferred cash incentive award, which is generally payable at the end of a five-year performance cycle. One-half of the deferred award will be based on the continuation of service with the Company (Service Component), and the other half will be based on the Company's relative stock price performance versus a selected group of companies in the retail food and drug industry (Performance Component). The maximum combined Performance Component and Service Component payable to participants will not exceed the original principal amount of the purchase loan plus accrued but unpaid interest. The estimated deferred cash incentive award is recorded as compensation expense on the income statement and amounts earned to date are recognized as a credit to the note balances in additional paid-in capital in the balance sheet. See Subsequent Events note, following.

Preferred Share Purchase Rights

During March 1988, the Board of Directors of the Company declared a distribution of one Preferred Share Purchase Right (Right) for each outstanding share of the Company's common stock. The Rights were issued pursuant to a Rights Agreement between the Company and First Chicago Trust Company of New York as Rights Agent, which agreement has been amended from time to time.

Each Right as amended entitles shareholders to purchase one four-hundredth of a share of a new series of preferred stock at an exercise price of $62.50. The Rights will be exercisable only if a person or group acquires 10% or more of the Company's common stock or announces a tender offer, the consummation of which would result in ownership by a person or group of 10% or more of the Company's common stock. The Rights will generally not apply to a 10% or greater position held by Mr. L. S. Skaggs, the Company's former Chairman, or certain other related parties unless such entities increase their aggregate beneficial ownership of the Company's common stock by more than 1% over the amount of their percentage holdings on June 21, 1996, other than increases resulting from an acquisition of common stock by the Company or the execution, delivery and performance of the Stock Purchase Agreement and Registration Rights Agreement dated February 20, 1997 entered into between the Company and Mr. Skaggs and certain family members and trusts. The Company will be entitled to redeem the Rights at one-quarter cent per Right any time before a 10% or greater position has been acquired. The authorized capital of the Company includes 10 million shares of preferred stock, par value $1.00, of which 0.4 million shares have been designated Series A Junior Participating Preferred Stock.

If the Company is acquired in a merger or other business combination transaction, each Right will "flip over" and entitle its holder to purchase, at the Right's then current exercise price, a number of the acquiring company's common shares having a market value at that time of twice the Right's exercise price.

In addition, if a person or group acquired 10% or more of the outstanding Company common stock, each Right will "flip in" and entitle all other holders to purchase, at the Right's then current exercise price, a number of shares of the Company's common stock having a market value of twice the Right's exercise price. Further, at any time after a person or group acquires 10% or more of the outstanding Company common stock but prior to the acquisition of 50% of such stock, the Board of Directors may, at its option, exchange part or all of the Rights (other than Rights held by the acquiring person or group) for shares of the Company's common stock at an exchange rate of one share of common stock for each Right.

On February 22, 1995, the Board of Directors expressed its intent, subject to the exercise of its fiduciary duties, to allow the Rights Agreement pertaining to the Company's preferred share purchase rights, dated March 18, 1988, as amended, to expire in accordance with its terms on March 18, 1998, without renewal or extension.

Repurchase of Common Stock

In June 1996 the Company replaced its existing stock repurchase program with a new repurchase program which authorizes the repurchase of up to two million shares of common stock. During 1996 the Company repurchased 1.1 million shares of its common stock at an average price of $34.67 per share in accordance with the Company's stock repurchase programs. As of February 1, 1997, an additional 1.9 million shares remained authorized for repurchase. See Subsequent Events note, following.

POSTRETIREMENT HEALTH CARE BENEFITS

The Company provides certain health care benefits to eligible retirees of certain defined employee groups under two unfunded plans, a defined dollar and a full coverage plan.

The accumulated postretirement health care benefit obligation is as follows:

(In thousands of dollars)	1996	1995	1994
Current retirees	$38,107	$37,396	$35,787
Current active employees	14,776	14,275	13,521
Unrecognized gain	12,969	14,390	16,819
ACCUMULATED POSTRETIREMENT BENEFIT OBLIGATION ("APBO")	$65,852	$66,061	$66,127
DISCOUNT RATE	7.5%	8.5%	8.5%

The components of postretirement health care benefit expense are as follows:

(In thousands of dollars)	52 weeks 1996	53 weeks 1995	52 weeks 1994
Service cost – benefits earned during the year	$ 671	$ 768	$1,013
Interest cost on APBO	3,896	4,006	3,730
Adjustment of APBO	(789)	(465)	(598)
NET POSTRETIREMENT HEALTH CARE BENEFIT EXPENSE	$3,778	$4,309	$4,145

The Company assumed no increase in the cost of the defined dollar benefit plan in any year presented. Changes in assumptions do not impact the defined dollar plan. The assumed health care cost trend rates used to measure the expected cost of benefits included a rate of increase of 9% for 1997 decreasing to 6% by the year 2000. Increasing the assumed health care cost trend rates for the full coverage plan by one percentage point in each year would have resulted in an increase of $2.4 million in the APBO and no material increase in annual health care expense.

RETIREMENT PLANS

The Company sponsors and contributes to a defined contribution retirement plan, American Stores Retirement Estates (ASRE). This plan was authorized by the Board of Directors for the purpose of providing retirement benefits for associates of American Stores Company and its subsidiaries. The plan covers associates meeting age and service eligibility requirements, except those represented by a labor union, unless the collective bargaining agreement provides for participation. Contributions to ASRE are made at the discretion of the Board of Directors.

The Company also contributes to multi-employer defined benefit retirement plans in accordance with the provisions of the various labor contracts that govern the plans. The multi-employer plan contributions are generally based on the number of hours worked. Information about these plans as to vested and non-vested accumulated benefits and net assets available for benefits is not available.

Retirement plans expense was as follows:

(In thousands of dollars)	52 weeks 1996	53 weeks 1995	52 weeks 1994
Company sponsored plans	$ 88,106	$ 81,704	$ 84,149
Multi-employer plans	95,822	86,723	67,391
RETIREMENT PLANS EXPENSE	$183,928	$168,427	$151,540

Retirement Plans (Concluded)

During 1994, the Company entered into Employment Agreements (Agreements) with 17 of the Company's key executive officers. During 1995 the Company entered into an Agreement with an additional employee. The Agreements are for terms of either three or five years, may be renewed by the Company for subsequent three-year or five-year terms, contain usual and customary terms of employment agreements and provide the officers with a special long-range retirement plan. Under the retirement plan, the executives are entitled to receive an annual payment for a period of 20 years beginning at age 57 or upon termination of employment, whichever occurs later. The retirement benefit is calculated as a percentage of the executive's average target compensation objective during the last two years of his or her employment under the Agreement. The benefit ranges from 9% to 40% based on years of service with the Company. The retirement benefit will be forfeited if the executive enters into competition with the Company. At year-end 1996 17 of the Agreements remained in effect.

Special Charges

The Company recorded special charges aggregating approximately $100.0 million, before taxes, or $.41 per share, during 1996 related primarily to its Delta initiatives. The Delta initiatives are designed to transform the Company from a holding company to a unified operating company.

The components of the charge include: warehouse consolidation costs, administrative office consolidation costs, closed store costs, asset impairment costs and other miscellaneous charges. The cost of consolidating four general merchandise warehouses into one in southern California totaled $26.4 million and is primarily related to lease termination costs, a reserve for the anticipated loss on the sale of owned facilities (based on management's estimated fair market value) and adjusting inventories to a common inventory valuation method. The cost of consolidating administrative offices in Salt Lake City and Chicago totaled $26.3 million and relates to asset write-offs, lease termination costs and severance costs. Closed store costs included mainly lease termination costs and fixed asset write-offs totaling $12.9 million. Asset impairment charges totaling $26.4 million consist of replacements of outdated computer systems and impairment of groups of stores and other assets that do not fit the long-term strategic plan of the Company. In addition, other reserves totaling $8.0 million were recorded. The special charges are included in cost of merchandise sold ($10.0 million), operating expenses ($15.5 million) and other non-operating expense ($74.5 million). As of year-end 1996, the Company charged $18.0 million against the reserve, of which $12.3 million related to asset impairment. Disposal of impaired assets is expected to be complete in fiscal 1998.

Severance costs included above resulted from the Company's commitment to restructure and consolidate operations. During the fourth quarter 1996, consolidation of human resources, payroll, Drug Store administration and general merchandise buying functions were announced and the related costs were measurable and recognized. The Company recorded a charge to operating and administrative expense of $15.5 million, related to termination benefits to be paid to an estimated 445 employees. There were no payments made nor employees terminated during the year. The consolidation is expected to be complete in fiscal 1998.

Contingencies

The Company has identified environmental contamination sites related primarily to underground petroleum storage tanks at various store, warehouse, office and manufacturing facilities (related to current operations as well as previously disposed of businesses). At most such locations, remediation is either underway or completed. Undiscounted reserves have been established for each environmental contamination site unless an unfavorable outcome is remote. Although the ultimate outcome and expense of environmental remediation is uncertain, the Company believes that required remediation and continuing compliance with environmental laws, in excess of current reserves, will not have a material adverse effect on the financial condition or results of operations of the Company. Charges against earnings for environmental remediation were not material in 1996, 1995 or 1994.

Legal Proceedings

The Company is involved in various claims, administrative proceedings and other legal proceedings which arise from time to time in connection with the conduct of the Company's business. In the opinion of management, such proceedings will not have a material adverse effect on the Company's financial condition or results of operations.

Subsequent Events

On February 20, 1997, the Company and the family of L. S. Skaggs entered into an agreement for the repurchase by the Company of 12.2 million shares of its common stock from the Skaggs family and certain family and charitable trusts for $45 per share, the closing price on the date of the agreement (the Repurchase). Pursuant to the agreement, the Company filed, at its cost, a registration statement to enable such shareholders to sell 15.4 million additional shares in a secondary offering. The closing of the secondary offering, at $43 per share, and the Repurchase was consummated on April 8, 1997. In addition, the Company has granted the underwriters for the offering an option to purchase an additional 2.3 million shares to cover over-allotments. If the option is exercised, these additional shares would be primary shares to be issued by the Company. The Company has agreed to reimburse the selling shareholders for underwriting fees, legal fees and other expenses incurred by them in connection with the transactions.

The selling shareholders have agreed to enter into a 10-year standstill agreement restricting purchases and sales of the Company's shares, proxy fights and other actions.

On March 28, 1997, the Company increased the capacity of its existing revolving credit facility from $1 billion to $2 billion, which includes a $1.5 billion five-year revolving credit facility and a $500 million 364-day revolving credit facility (the Amended Credit Facilities). The Company plans to finance the $550 million Repurchase initially through the Amended Credit Facilities. Subject to market conditions, the Company expects to refinance the indebtedness incurred in connection with the Repurchase through public equity and/or debt issuances over the next six to 12 months.

In anticipation of the expiration of the 1992 Key Executive Stock Purchase Incentive Plan, the Board of Directors recently approved a new stock-based management incentive program. The new program will continue to link executive incentive compensation to shareholder return. The program involves the grant of market-priced stock options that would ordinarily begin to vest on the fifth anniversary of the grant date but which will vest on an accelerated basis, in part, if stock ownership requirements are satisfied and, in part, if the Company achieves annual performance goals. A total of approximately 1.8 million options were granted to 16 senior officers under the 1989 Stock Option and Stock Award Plan in connection with the new incentive program on February 24, 1997 and a total of approximately 1.3 million options were granted to an additional 30 senior officers under a new plan on March 27, 1997, in each case with an exercise price of $45 per share.

In the opinion of management, all adjustments necessary for a fair presentation have been included:

(In thousands of dollars, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter [4]	Fiscal Year
1996[1]					
Sales	$4,580,028	$4,625,066	$4,563,362	$4,909,673	$18,678,129
Gross profit	1,195,176	1,226,328	1,216,966	1,326,508	4,964,978
Operating profit	156,814	187,654	177,562	239,646	761,676
Other	(5,747)	(1,163)	(1,550)	(77,106)	(85,566)
Net earnings	64,240	83,129	75,757	64,095	287,221
Net earnings per share	$.44	$.57	$.52	$.44	$1.97
Fully diluted earnings per share	.44	.57	.52	.44	1.97
1995[2,3]					
Sales	$4,362,237	$4,494,890	$4,361,183	$5,090,584	$18,308,894
Gross profit [5]	1,120,869	1,150,890	1,145,142	1,333,303	4,750,204
Operating profit	134,576	165,277	154,632	252,338	706,823
Other	(852)	3,188	1,435	(133)	3,638
Net earnings	53,883	73,937	67,445	121,544	316,809
Net earnings per share	$.37	$.50	$.46	$.83	$2.16
Fully diluted earnings per share	.37	.50	.46	.83	2.16
1994					
Sales	$4,607,652	$4,669,018	$4,431,863	$4,646,593	$18,355,126
Gross profit [5]	1,179,552	1,193,243	1,140,242	1,238,207	4,751,244
Operating profit	131,756	169,830	120,982	227,500	650,068
Other	(584)	(562)	89,767	38,277	126,898
Net earnings	47,963	69,034	97,934	130,253	345,184
Net earnings per share	$.34	$.48	$.69	$.91	$2.42
Fully diluted earnings per share	.33	.47	.66	.87	2.33

[1] Fourth quarter 1996 includes special charges totaling $100.0 million, pre-tax ($.41 per share, after tax) included in Gross Profit ($10.0 million), Operating Profit ($25.5 million) and Other ($74.5 million).

[2] 53-week year

[3] The fourth quarter of fiscal 1995 is a 14-week quarter, compared to 13-week quarters for fiscal 1996 and 1994.

[4] Operating profit in the fourth quarter has exceeded the prior three quarters in each of the three years presented due to the seasonality of the food and drug retail business and LIFO inventory adjustments. The holiday season in the fourth quarter benefits the food and drug retail business. Increased cold and flu occurrences during this quarter also benefit the drug store operations.

[5] Beginning in the first quarter of 1996, the Company, in connection with its consolidation efforts, classified advertising expense as a cost of merchandise sold. Previously, these expenses were classified as operating expenses. Prior years have been reclassified to conform to the current year presentation.

Board of Directors

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Southern Region Corporate Finance Unit
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[1] Audit Committee
[2] Compensation and Stock Option Committee
[3] Nominating Committee

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Manager – American Drug Stores

James C. Horn
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General Manager – Acme Markets

Don L. Skaggs
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Manager – Skaggs Telecommunications
Service, Inc.

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General Manager – Lucky Stores Southern
California Division

Scott Bergeson
Senior Vice President, Human Resources

Gregory P. Josefowicz
Senior Vice President and General
Manager – Jewel Food Stores

Jack Lunt
Senior Vice President, Assistant
General Counsel and Secretary

Thomas E. Maddox
Senior Vice President and Deputy General
Counsel

Lawrence A. Metz
Senior Vice President and
Deputy General Counsel

J. Greg Spencer
Senior Vice President, Treasurer
and Assistant Secretary

Bradley M. Vierig
Senior Vice President and Controller

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Senior Vice President –
Information Technology

Allen M. Zietz
Senior Vice President and
General Manager – Lucky Stores Northern
California Division

D. B. Holt
Vice President and General Manager –
Jewel Osco Southwest

Principal Operating Companies

The Company conducts its activities principally through its retail food and drug store operations. The retail operations and other non-retail subsidiaries are listed below.

Food Operations

Acme Markets, Inc.
75 Valley Stream Parkway
Malvern, Pennsylvania 19355
(610) 889-4000

Jewel Food Stores, Inc.
1955 West North Avenue
Melrose Park, Illinois 60160
(708) 531-6000

Jewel Osco Southwest, Inc.
2500 Louisiana Blvd. N.E.,
Suite 400
Albuquerque, New Mexico 87110
(505) 872-5100

Lucky Stores Northern
California Division
1701 Marina Boulevard
San Leandro, California 94577
(510) 678-4200

Lucky Stores Southern
California Division
6565 Knott Avenue
Buena Park, California 90620
(714) 739-2200

Drug Operations

Osco Drug and Sav-on
709 East South Temple
Salt Lake City, Utah 84102
(801) 539-0112

Health 'n' Home Corporation
136 East South Temple
Salt Lake City, Utah 84111
(801) 961-3200

Joint Venture

(50% ownership)
RxAmerica, LLC
369 Billy Mitchell Way
Salt Lake City, Utah 84116
(801) 961-6000

Non-retail Subsidiaries

American Stores Properties, Inc.
348 East South Temple
Salt Lake City, Utah 84111
(801) 961-5600

American Procurement and
Logistics Company
155 North 400 West
Salt Lake City, Utah 84103
(801) 961-5000

Skaggs Telecommunications
Service, Inc.
935 West Bullion Street
Murray, Utah 84123
(801) 263-3959

Corporate Information

The following information is provided to assist shareholders in their communications with the Company.

Shareholder inquiries should be directed to:
Investor Relations Department
American Stores Company
709 East South Temple
Salt Lake City, Utah 84102-1205

Telephone: (801) 539-0112
(800) 541-2863
Telefax: (801) 531-0768

Transfer Agent, Registrar and Dividend Paying Agent

The transfer agent, registrar and dividend paying agent for American Stores Company common stock is First Chicago Trust Company of New York. In this capacity, First Chicago maintains all shareholder records for the corporation. For information about American Stores Company shareholder records or to request replacement of lost dividend checks or stock certificates, shareholders should contact:

First Chicago Trust Company of New York
P. O. Box 2500
Jersey City, New Jersey 07303-2500
(800) 446-2617

Stock Trading

American Stores Company's common stock is listed on the New York, Philadelphia, Chicago and Pacific Stock Exchanges, and is quoted in the daily stock tables carried by most newspapers. The ticker symbol for the common stock is "ASC." The stock table abbreviation is "AmStor."

Form 10-K and Quarterly Financial Reports

Copies of the Company's annual report on Form 10-K may be obtained without charge upon request to the Investor Relations Department.

In lieu of printing and distributing Quarterly Reports to Shareholders, American Stores Company makes available to its shareholders without charge, copies of the Company's quarterly reports on Form 10-Q. Shareholders wishing to receive the Company's Form 10-Q reports may contact the Investor Relations Department.

Fact Book

A comprehensive Fact Book with detailed historical financial information is available upon request without charge. It may be obtained by contacting the Investor Relations Department.

Annual Meeting of Shareholders

The Annual Meeting of Shareholders will be held on Tuesday, June 17, 1997, at 10:00 a.m. (Mountain Daylight Time) at the Little America Hotel, 500 South Main Street, Salt Lake City, Utah.

1997 Calendar

	Quarter End
First Quarter	May 3, 1997
Second Quarter	August 2, 1997
Third Quarter	November 1, 1997
Fourth Quarter	January 31, 1998

Printed on Recycled Paper
Cover and Operations: 50% total recovered fiber, 20% post-consumer waste
Financials: 100% post-consumer waste

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84102-1205